

Shareholder Value & the Common Good

Editors

David Lutz
Paul Mimbi



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*Essays on the Objectives and
Purposes of Business Management*

Edited by
David Lutz
Paul Mimbi



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CONTENTS

Acknowledgements	ix
Introduction	
DAVID LUTZ and PAUL MIMBI	1
Keynote Address: The Relationship between Ethics and Business Management	
JOHN GITHONGO	23
Altruism and Human Flourishing: The High and Low Dimensions of 'Self-Interest' in Business Enterprise	
CHRISTINE W. GICHURE	31
Beyond Agency Theory: The Nature of the Firm from a Humanistic Perspective	
JUAN FONTRDONA	47
A Comparative Analysis of the Principle of Competition in Business Management and the Principle of Love in Christian Ethics in Africa	
EUNICE KARANJA KAMAARA	69
The Purpose of Business Management in the Light of Catholic Social Teaching	
HILARY GEORGE NDEMO	83
The Challenge of Business: Going beyond Wealth Maximisation and Profit Maximisation	
ANNA MARIA E. MENDOZA and CORAZON T. TORALBA	101
Human Perfection as the Proper Aim of Business Management	
FRANCIS GIKONYO WOKABI	123
The Objective of Maximum Profit, or the Wishful Thinking of a 'Hyper-Monetised' Economy	
MINERVA ULLATE FABO	143

The German Way: The Free-Enterprise System – Daily Struggle between Capitalism and Social Responsibility	
PETER SCHIWY	161
Which Business Models for Sustainable Development?	
MICHEL ALBERT	169
Beyond ‘Welfarism’: Towards a Philosophical Grounding of Economic Theory	
PAUL MIMBI	185
The Objective of Business Management: A Biblical Perspective	
CHRISTOPHER OWCZAREK	199
Should Entrepreneurs Advance the Profit-Maximisation Objective?	
HENRY M. BWISA	211
Ethics in Business Economics: Self-Interest, Inequality of Income, and Social Justice	
MADUABUCHI DUKOR	225
Governing the Business Enterprise: The Wealth-Creating Organ of, in, and for Society	
KARUGOR GATAMAH	243
Profit Maximisation and Business Social Responsibility Objectives in Business Management	
BENJAMIN O. MATURU	255
Capitalism and Social Investment in Africa: Contradictory Commitment to Development	
O. F. EMIRI	269
The Misapplication of the Concept of Agency to Financial Management Theory	
LUIS FRANCESCHI	281

Founding an Ethical Kenya: The Role of the Business Sector	
ANNE WAIGURU	305
The Search for Metaphysical, Epistemological, Moral Principles to Serve as a Basis of Business Management	
JOSEPH KAHIGA KIRUKI	323
The Objective of Business Management and the Necessity of Ethical Business Managers	
MIRIAM P. NARBARTE	329
Presumptive Taxation and Tax Compliance in Uganda: Incorporating Ethical Aspects	
ARTHUR SSERWANGA and THOMAS WALTER	337
Management Ethics and the Reality of Negative Attitudes in Nigeria's Public Employment Sector	
V.T. JIKE	349
Work Ethic, Locus of Control, and Task Performance	
JOSEPH NTAYI	363
Personal Morality and Business Management: Empirical and Philosophical Perspectives	
MICHAEL MABURURU NTABO	383
Contributors	393

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David Lutz and Paul Mimbi

INTRODUCTION

DAVID LUTZ AND PAUL MIMBI

Aristotle observed in the opening sentence of his *Nicomachean Ethics* that ‘every craft and every inquiry, and similarly every action and pursuit, is thought to aim at some good’.¹ The essays in this volume are concerned with the good or goods at which business management should aim. Most of these essays were presented at an international, interdisciplinary conference convened at Strathmore University in Nairobi, Kenya on 12–13 June 2003. A few of the contributions were written by scholars who did not travel to Nairobi for the conference.

According to agency theory, which dominates financial management teaching today, at least in the English-speaking world, the good at which business management should aim is the long-term maximisation of owner value. Managers of joint-stock companies are to maximise shareholder value. Ethics is relevant, if at all, only as means to that end.

While theories of business ethics recognise the importance of owner value, nearly all deny that managers should seek to *maximise* it. For example, stakeholder theory – founded upon Immanuel Kant’s categorical imperative, according to which humanity should always be treated as an end, never as a means only – maintains that managers should aim at promoting the interests of *everyone* affected by their decisions.² Although there are many other theories of business ethics, almost all agree in contradicting agency theory.

This contradiction between financial management theory and business ethics theory has practical implications for commerce education and the real-world practice of business management. In most faculties of commerce today, students receive a contradictory education. They are told that the objective of business management is to maximise profit or owner value. Then they are taught some theory of business ethics, according to which one should sometimes not perform actions that would maximise profit or owner value, because to do so would be unethical. Practicing managers seeking guidance from scholars are faced with the

1 ARISTOTLE, *The Nicomachean Ethics of Aristotle*, trans. W. D. Ross, Oxford: Oxford University Press, 1975, I, 1, 1094a19.

2 William M. EVAN and R. Edward FREEMAN, ‘A Stakeholder Theory of the Modern Corporation: Kantian Capitalism,’ in Tom L. Beauchamp and Norman E. Bowie, eds., *Ethical Theory and Business*, 3rd Ed., Englewood Cliffs, New Jersey: Prentice Hall, 1988, pp. 97–106.

same contradiction. The teachers do not resolve the contradiction within their universities, but expect practitioners to do so in the real world.

The question of the purpose of business management is fundamental to other questions in business ethics. Little can be accomplished by discussing the ethics of bribery or deceptive advertising or insider trading, if it is assumed from the start that the purpose of business management is to produce as much wealth as possible for the owners of the company.

This collection of essays, written by scholars within a wide spectrum of philosophical and theological traditions, does not resolve the contradiction. What it does accomplish, however, is to demonstrate that the question ‘What is the proper objective or purpose of business management?’ can receive from intelligent people many answers other than ‘owner-value maximisation’. It is not possible that all of the positions defended within this volume are correct, because some contradict one another and truth is absolute, not relative. Nevertheless, it is possible to learn truth from essays containing errors. And this plurality of answers should at least caution us to avoid the assumption that the question has only one answer.

1. THE CONTRIBUTORS TO THE DEBATE

Keynote Speaker John Githongo, Kenya’s first Permanent Secretary for Governance and Ethics, challenges us to recognise that business management and ethics belong together, despite the paucity of empirical evidence that this is the case: ‘The only thing that seems to be in fashion nowadays is the pursuit of profit, or money. This in itself is a great tragedy, for there is much more in life, and to life, than how much money one manages to accumulate before it is time to go on to the afterlife.’ He warns students of commerce, future business managers, that conducting oneself in an ethical manner will sometimes be difficult. And he challenges us to make ‘the conscious and deliberate choice to stand for justice and the truth’.

Christine Gichure, relying on Aristotle’s moral philosophy, argues that the proper aim of the business manager is *eudaimonia*, or faring well. Economic prosperity derives from the same values that produce human prosperity in our personal and familial relationships. We cannot separate economic life from family, social, and spiritual life, because all of these form a unified whole. She cites the Aristotelian distinction between *homo oeconomicus*, who economises in order to live well, and *homo chrematisticus*, who desires money without limit. The problem with the doctrine of profit maximisation is that what should be a mere means is transformed

into an end. The firm Johnson & Johnson, in contrast, manages the multiple values of product, people, planet, and profits.

Juan Fontrodona calls into question the methodological individualism of neoclassical economics and agency theory, as well as the reductionism of interest to self-interest and then to economic self-interest. He maintains that the firm should be understood as a community of persons in the service of society, rather than as a nexus of relationships between maximising individuals, and that pursuing ethical excellence is better than pursuing economic excellence. Although companies must be profitable, it does not follow that profit is the end for which they exist. The firm has multiple purposes, many of which are non-economic. Consequently, commerce education should be not only quantitative and analytic, but also humanistic.

Eunice Kamaara explains that in traditional African cultures, religion was integrated into all aspects of life, including commercial activity. As Africans adopted European culture, however, business came to be seen as an enterprise whose sole purpose was to make as much profit as possible, without asking ethical questions. She compares the business principle of competition with the Christian ethical principle of love, from an African Christian theological perspective. The desired ends of business competition are efficiency and increased productivity. Without the welfare of the customer in mind, however, no firm will be efficient. To be a successful business manager, one must be ethical. Broad social interest is in ultimate harmony with wise egoism. In other words, to love others is to love oneself.

George Ndemo argues that Catholic social teaching is more capable than its rivals of enabling us to meet the challenge of the contemporary market economy. Catholic social teaching calls for a distinction between objectives and purposes. In the field of the market economy, this is a distinction between the objectives of the people directing a firm and the purpose of all firms. The purpose of the firm – understood as a community of persons, not a mere collection of individuals – is broader than profit. It also includes satisfying the basic needs of its members and serving the whole of society. Justice and charity must govern economic undertaking as the principal laws of social life. Business managers are, in fact, moral agents in economic life.

Anna Maria Mendoza and Corazon Toralba use Aristotelian ethical principles to address the question of the proper objective of business management. They maintain that shareholder-value maximisation is one of the proper objectives of management, but should not be the ultimate

objective. Following Aristotle, they argue that wealth acquisition should facilitate the attainment of the good life through practice of the virtues. Managers should meet the standards of corporate social responsibility, which means that they have responsibilities to society beyond the maximisation of shareholder value. Meeting this responsibility requires good corporate governance, which they understand to be the all-encompassing objective of business management.

Francis Wokabi argues that business management should transcend a fixation with material value and embrace human perfection as its main aim. He understands human perfection in terms of the improvement of human vegetative and sensitive capacities, as well as the actualisation of such essential human capacities as rationality, sociality, creativity, and morality. Although money should serve humanity, we have reversed the roles. Money has been transformed into a subject, while the human person has been made a mere object, a means of moneymaking. Preoccupation with material gain is disabling and alienating, because it neglects the spiritual dimension and benefits of work.

Minerva Ullate argues that if we take the human person into account as a unity of body and soul, the business firm should not merely aim at profit maximisation, but should have multidimensional objectives. In a 'hyper-monetised' economy, where money has become an ultimate end, goods without economic value cannot acquire the status of ends. The objectives of the firm should instead be defined according to three types of human motives: extrinsic, intrinsic, and transcendental. If they are not, the unconscious learning of agents will bankrupt the firm, for lack of a programme that interests all participants equally. The unity born from the transcendental motivation of the participants generates trust, greater transcendental satisfaction of the participants, and the possibility of greater efficacy.

Peter Schiwy explains the essential features of the German free-enterprise system, as it has functioned since the Second World War, as well as the challenges facing that system today. With roots in both the thought of F. A. von Hayek and Catholic social philosophy, this system seeks to bring the interests of the individual, in economic freedom of activity, into balanced harmony with the interests of society. Although the right of private ownership of property is protected, property entails obligations and should be used to serve the public good. The core of this system is entrepreneurial initiative, but entrepreneurs have ethical responsibilities and the pursuit of profit is related to the far-reaching satisfaction of the interests of others.

Michel Albert contrasts two models of capitalism: the Anglo-Saxon or shareholder model, and the Rhine or partnership model. While the former considers business firms to have the single objective of maximising shareholder value, the latter regards firms as having social responsibilities, pursuing multiple objectives, and aspiring to reconcile the interests of customers, shareholders, workers, and the environment. In recent years, the Rhine model has been retreating in the face of the Anglo-Saxon model of shareholder monism. Nevertheless, originating within the Anglo-Saxon countries themselves, there is now a movement for socially responsible investment, corporate social responsibility, and sustainable development – comprising economic growth, social progress, and ecological responsibility.

Paul Mimbi brings in philosophical principles about the human person to interact with economic principles. According to an adequate philosophy of economics, man is neither *homo oeconomicus* nor a being waiting for a life to which matter is irrelevant. A theory of virtue as a consumer's permanent disposition to make right choices and of prudence as the rational principle in choice must precede all economic analysis. Mimbi identifies three points of entry for philosophical thinking into economic analysis: the role of objectives in decision-making, an understanding of human preferences that goes beyond utility, and our conception of what it means to be rational. The proper *telos* of business management is true human happiness, which transcends the utilitarian goal of pleasure.

Christopher Owczarek uses the Old Testament narrative of Joseph to argue that the Bible offers us something specifically biblical on the purpose of business management. As Pharaoh's 'prime minister', Joseph used his extraordinary managerial competence to maximise owner value and, in the process, turned Egypt into a 'pyramidal society', with a rich minority at the top and the poor majority at the bottom. After the Exodus, however, God's intention was that Israel would become a 'circular society' of brothers and sisters taking care of one another. Owczarek concludes that focusing on owner-value maximisation is self-destructive in the long run, but that promotion of the interest of those affected by one's business decisions contributes to owner-value maximisation.

Henry Bwisa contrasts neoclassical economic theory, which assumes that firms maximise profit, with the X-efficiency theory, according to which entrepreneurs are not assumed to maximise anything, but instead to choose the degree to which they wish to pursue purposive behaviour. He maintains that entrepreneurs should attempt to attain a minimum acceptable level of profit, but also pursue one or more other aims of their

choosing: satisficing behaviour, revenue maximisation, market share, long-term survival, etc.

Maduabuchi Dukor poses the question whether the practice of business management should conform to the Golden Rule, 'Do unto others as you would have them do unto you', or to the principle of self-interest, 'Every man for himself and the devil take the hindmost'. He criticises John Rawls' liberal theory of justice and argues that the proper objective of business management is social justice, properly understood, not self-interest. Managers should strive to be altruistic and socially responsible, rather than to maximise some financial variable.

Karugor Gatamah stresses the essential role of corporate governance in enabling firms to attain their objectives. He argues that, while a business enterprise must make adequate returns in order to survive, it must be governed and managed in such a way that it adds value to its customers and to society generally. Good corporate governance has multiple objectives: increased profitability and efficiency; enhanced ability to create wealth for shareholders; increased employment opportunities; increased benefits to all stakeholders; ensuring the highest standards of corporate responsibility, citizenship and business ethics in an effort to strengthen mutual social responsibility; etc.

Benjamin Maturu observes that beliefs about what objectives business managers should seek to attain depend largely upon the academic backgrounds of the participants in the debate. Economists tend to assume that the objective of business firms is profit maximisation. Sociologists and ethicists, on the other hand, emphasise contributions to the common good resulting from business operations. Nevertheless, he argues, there exists common ground and the possibility of reconciling the divergent views held by academics in these disciplines. Profit maximisation and business social responsibility are mutually realisable objectives of business management, and have mutually reinforcing, positive feedback effects upon each other.

O. F. Emiri believes that the dominance of legal positivism in Western, liberal democracies has strengthened the belief that the purpose of business management is to maximise profit or owner value. He maintains that the adoption of liberalism, capitalism, and agency theory by African nations has contributed to their misery. The positivist, non-ethical framework of present company law discourages social investment and social responsibility. Relying on both Aristotle's ethics and utilitarianism, he argues that the proper objective of business management is the promotion

of collective utility or happiness. He regards the Japanese management model as more suitable for Africa than the Anglo-American model.

Luis Franceschi explains that agency theory is based upon a misapplication of the legal concept of agency to financial management. The business corporation is a legal person and an ontological entity, not a legal fiction. Managers are not agents of shareholders, but of the corporation itself. Therefore, it is a mistake to assert that the objective of business management is shareholder-value maximisation, on the grounds that managers are the agents of shareholders. According to commercial law, managers are obligated to act in the best interest of the corporation, which is not identical to the best interest of its shareholders.

Anne Waiguru cites Peter Drucker's statement that the purpose of a business enterprise is to create a customer. She goes on to conclude that the objective of business management is to help fulfil the goals of a business entity, whatever they may be, both efficiently and effectively. From this it follows that the objectives of business management vary, depending upon the particular business firm: profit, shareholder value, value for customers, sustainability, etc. One problem with focusing on profit or shareholder value, however, is that this may lead to unethical actions. The core objective of business management should include influencing societal values and contributing to the formation of ethical nations.

Joseph Kahiga argues that we should strive for moral judgments in business management that are objectively true. He advances three ultimate ethical principles: impartiality, rational benevolence, and liberty. Businesspersons should not extract maximum profits to the detriment of other parties, nor focus on profitability at the expense of human dignity and fair play. They must regard the interests of all other persons affected by their actions, including trading partners in poorer nations, as equal in importance to their own. They should not permit their own special interests to impede the economic progress of other rational parties.

Miriam Narbarte maintains that the proper objective of business management is wealth maximisation through ethical means. Making money ethically requires responding socially to the demands of various groups of stakeholders: customers, employees, suppliers, shareholders, community and society, competitors, government, and the church. Unfortunately, we are presently experiencing a deterioration of ethical standards in business. Whereas previous generations focused on making products, today's generation is focused on making money. Unethical

managers are short-sighted, however, because the costs incurred by being socially responsible generate greater profits in the long run.

Arthur Sserwanga and Thomas Walter investigate the influence of ethics on tax compliance in Ugandan small business enterprises. Most studies of tax non-compliance assume that taxpayers seek to maximise expected utility. The variables in such studies include probability of detection and expected penalty if detected. These authors maintain, however, that actual compliance decisions are far more complex than those depicted in standard economic models, because taxpayers are also subject to a wide variety of sociological and ethical factors. Although it is often ignored by public and tax policy, ethics play an important role in compliance.

V. T. Jike explains that, in Nigeria today, 'the concept of owner value is perceived through the prism of a hitherto exploitative colonial machinery that serves to date as a continuing referent for conflict, both at the inter/intra-personal and at the management versus workers levels'. He also traces the corruption for which contemporary Nigeria is so notorious to the 'us-them' psychological schism created by the clash between the cultures of imperial Britain and pre-colonial Nigeria. He concludes that 'any worthwhile exercise in examining the ethical orientation of workers in Nigeria, especially how workers might align with the grand objective of management, must reach back to the colonial condition and the prevailing social contingencies of the larger society of which workers are a part.'

Joseph Ntayi writes that the concept of work as a determinant of personal value and identity, and as an indicator of good character and good morals, is losing ground in Uganda. He conducts empirical research to establish the relationship between work ethic, locus of control, work withdrawal behaviours, organisational retaliation behaviours, job withdrawal behaviours and task performance. He concludes that there is a need to improve the work ethic and reduce the external locus of control, work withdrawal behaviours, and organisational retaliation behaviours that negatively affect task performance. He calls for the creation of a national work ethic that emphasises commitment to work.

Michael Ntabo argues that human persons naturally seek their own good and that most commercial and economic behaviour is motivated by personal or national self-interest. Even if the objective of business is supposed to be the economic prosperity of everyone, most businesspersons in fact pursue profit. Rather than attempting to persuade business managers to act contrary to their self-interest, we should strive

to give them an understanding of self-interest that includes the good of the communities to which they belong. The philosophy of traditional African cultures contains the resources needed to accomplish this conceptual expansion.

2. RIVAL TRADITIONS OF MANAGEMENT THEORY

Most of the ideas expressed by the contributors to this volume are rooted in one or more of three competing philosophical traditions. The first is the Western tradition of ancient Greek and Roman philosophers, most notably Plato and Aristotle, and later Christian philosopher-theologians, most notably St. Augustine of Hippo and St. Thomas Aquinas. Among the significant features of this tradition are the beliefs that human persons are naturally political, that the good of individual persons is attained within communities, and that there is a harmony of the individual good and the common good. Although little progress has been made thus far in developing theories of business management and business ethics within traditions of African philosophy, the core features of traditional African cultures are similar to those of traditional European cultures (and of all other cultures that have stood the test of time), because they are consistent for the most part with the human nature that all human persons share.

The second tradition is the modern-Western tradition of the 'Enlightenment' (which, in fact, brought more darkness than light to Europe and the world), a deliberate rejection of the first tradition. Among the most significant characteristics of this tradition are the beliefs that the human brain has the power to solve the problems of the human race, that what is good for one individual may be different in nature from what is good for another, and that pursuing one's own self-interest often conflicts with acting ethically. The traditional understanding of the harmony of the individual good and the common good is rejected. To this tradition belong capitalism, defended by thinkers such as Adam Smith and Milton Friedman, as well as such political and ethical theories as social contractarianism, Kantianism and utilitarianism. In the terminology of contemporary business management and business ethics, both agency theory and stakeholder theory belong to this tradition.

The third tradition, which is found less frequently than the other two within the pages of this volume, is socialism, advocated most prominently by Karl Marx. Socialism is a system of social and economic organisation that substitutes state monopoly for private ownership of the factors of production and means of distribution, and concentrates the chief activities of human life under the control of the secular governing

authority. Although the socialist tradition is a reaction to the individualism of Enlightenment philosophy, it shares many fundamental philosophical features with its opponent. Traditional Western philosophy understands human persons to have both material bodies and non-material souls,³ and understands the individual good and common good in both material and non-material terms. With the Enlightenment, we generally find either a de-emphasis or an outright rejection of the non-material aspect of human personhood. Marxism, while rejecting the individualism of the Enlightenment, agrees with the worst of modern-Western philosophy in understanding the good of individuals and groups of individuals in materialist terms.

While Marx's criticism of capitalism contains valuable insights, his positive proposal is a recipe for disaster. Attempts to put it into practice have been notoriously unsuccessful and have resulted in untold misery on an unimaginable scale. One especially weak aspect of socialism is the Marxian theory of value. Marx's so-called 'scientific socialism' borrowed the labour theory of value from David Ricardo and gave it an ethical interpretation, holding that since labour is the sole producer of wealth, the labourer should receive the entire product. Accordingly, socialists deny the right of the capitalist to interest and of the landlord to rent, and would make capital and land common property. Hence, the claim that the value of a product is the sum total of the *congealed* effort of the labourer. Neither capital nor land is a factor of production. Therefore, the labourer under the present system receives no more than a bare subsistence of the net value of the fruit of his labour. The 'surplus value' that he produces above this amount is appropriated by landlords and capitalists – economic alienation.

The truly dehumanising aspects of socialism (entrenching social injustices and inequalities) are the abolition of private ownership and the view that the state is father and mother. The 'surplus value' concept is clearly premised upon incorrect philosophical and economic analyses.

While Marx's theory was influenced by many of his predecessors, a number of his errors can be traced back – through the mediation of other philosophers such as Ludwig Feuerbach and G. W. F. Hegel – to those of Kant's transcendental philosophy. As with all academic disciplines, the point of departure in ethics stems from facts of experience.⁴ Thus, the

3 There was considerable disagreement concerning how the body and soul are related. For Plato, they are quite distinct entities, somehow joined together for the period of one's earthly life. For Aristotle, the soul is the form of the body.

4 Experience is contact between man and being (the world, self, other people). This takes place owing to the collaboration between the senses and the intellect.

premise of ethics is the experience of its object: *experience of morality* and *moral experience*.⁵ Moral philosophy *reflects* upon the spontaneous activity of practical reason (lived morality), in order to understand its meaning and foundation (the theoretical moment) and to clarify, purify and develop its criteria of judgment and motivation (practical moment). Thus, between moral experience and ethical reflection is established a vital loop: looking and looking again.

If lived and ‘experienced’ morality (*moral experience*) constitutes the premise of ethical reflection, a systematic articulation of this same reflection (*interpretation and philosophical grounding of moral philosophy*) is the very moment where the fate of ethics is decided. What is the meaning of grounding a (moral or physical) fact? The answer to this question gives rise to the different philosophical systems. Our thesis is that ethics can be elaborated correctly, only if grounded on the traditional philosophy of being, as opposed to *empiricist*, *transcendental*, and *phenomenological* foundations.

To ground a thing or a fact is to reveal its foundation. What we want to ground is the fact of *moral experience*. For Kant, this experience is that of the practical and absolute necessity of reacting to a situation I find myself in here and now.⁶ This practical and unconditional necessity is what Kant calls *duty*. Aquinas describes the fact of moral experience by borrowing from St. Paul: God’s law is inscribed in the heart of man (*conscience*).⁷ In other words, what needs explanation are these spontaneous *judgments* that morally *qualify* our actions and *impel* us to do them.

All agree that the foundation is being. Yet, a problem arises, because being is understood in two ways: being as an (existential) act or being as a truth (the composition made by the mind between a subject and a predicate).⁸ The philosophy of being considers being in all its semantic amplitude. (Both of the meanings above are taken into account; being

5 Cf. Karol WOJTYŁA, ‘Il problema dell’esperienza nell’etica’, in *I fondamenti dell’ordine etico*, Bologna: CSEO, 1980, pp. 15–36.

6 By way of example, this is the necessity one feels when faced with an injured motorist. One feels a categorical need to help, irrespective of one’s feelings of interest or comfort. This is the *categorical imperative*, i.e. *act only on that maxim whereby you can at the same time will that it should become a universal law*. How is this supposed to help us act ethically? According to Kant, in order to determine whether an action is ethical, we first formulate the maxim of the action (‘an injured motorist must be helped’) and then determine whether universalising it would result in a contradiction.

7 Cf. Rom 2,14–15.

8 ‘To be can mean either of two things. It may mean the act of essence, or it may mean the composition of a proposition effected by the mind in joining a predicate to a subject’ (Thomas AQUINAS, *Summa Theologiae*, trans. Fathers of the English Dominican Province, 2nd Ed., London: Burns Oates & Washbourne; New York: Benziger Brothers, 1920, Pt. I, Q. 3, Art. 4, ad 2).

as an act of reality grounds being as a truth). Transcendental philosophy considers being only as a truth, i.e. in its *presence* before the knowing subject.⁹ For the philosophy of being, to ground a fact of (moral) experience is to explain its reality (existence) and the cause of its reality. One must explain why it is and why it is such, and not only why I can know it.¹⁰ Transcendental philosophy is more centred on the *to-be-known* of things.¹¹ In the initial enquiry of Kant's criticism, he asks neither why things exist nor how one can explain the existence of things. Rather, he asks: How is the *knowledge* of things possible? Are *things-as-known* possible?

In transcendental philosophy, the mind is not explained nor grounded in anything, because it is precisely the human mind (and its *a priori* structures) that grounds and explains things (in so far as they are known: knowledge).¹² There is thus a dualism between nature and spirit, or between nature and person. Nature is grounded by the spirit; hence, things like the 'natural law' are meaningless for transcendental philosophy.

But why the transcendental method? Kant's transcendental philosophy is a response to the gnoseological idealism of George Berkeley and the theoretical scepticism of David Hume. According to this tradition, what is not a fact of experience is not real, but the result of a mental *custom* grounded subjectively in the laws of psychological associations that unite and connect sensations. Notions thus formed are useful for ordinary life, but have no scientific value. Kant thinks he has superseded this claim by his synthetic *a priori* judgments. The *a priori* synthesis goes beyond the empirical (sensitive) subjectivity of the individual to the transcendental subject, whose *a priori* structure constitutes scientific objectivity. Yet, Kant's attempt to save the situation leads to something worse: *transcendental idealism*, where now the *noumenon* is inaccessible to scientific knowledge

9 Cf. Leonardo POLO, *Hegel and Post-Hegelianism*, Piura, Peru: University of Piura, 1985, pp. 294–97.

10 Note that *esse reale* and *esse intentionale* are a world apart. The former is an existence *extra-mentem*, while the latter is an existence *intra-mentem*. The former is ultimately grounded in the Creator, while the latter is grounded in the very act of knowing.

11 In other words, the conditions of possibility of 'to-be-known'. The transcendental methodology is a reflection on the subjective structures of possibility for the appearance of the object (natural or moral) before consciousness. The interest is in the existence-for-me, not in the existence-in-itself, even though transcendental philosophers do not deny the thing-in-itself (noumenon). Thus, the entire philosophical enquiry is otherwise engaged in the domain of meaning or meaning for man. Being, knowledge, and to-be-known are identical. (Cf. Karl RAHNER, *Geist in Welt: Zur Metaphysik der endlichen Erkenntnis bei Thomas von Aquin*, 2nd Ed., Munich: Kösel, 1957, pp. 81–84. See also RAHNER, *Hörer des Wortes: Zur Grundlegung einer Religionsphilosophie*, 2nd Ed., Munich: Kösel, 1969, pp. 65 ff.)

12 In this sense Kant, for whom nature is formally the legality of space-time phenomena, would say that the mind produces and controls nature *formaliter spectata*. Thus knowledge is *principium*; nature is *principiatum*.

– it cannot be observed. Transcendental idealism parcels out reality into two worlds, the sensitive world and the intelligible world; nature world and spirit world; the world of necessity and the world of freedom; the world of theoretical reason and the world of practical reason; the world in which there is knowledge and the world in which we have ‘rational faith’; the world of science and the world of morality. This duplication is the condition for the possibility of freedom and morality.

So, what is the ultimate foundation? If the grounding of ethics is to follow the line of real being, two options are open: an eternal and auto-subsistent matter, whose evolution gives rise to what we have, including spirit, or the creative action of an intelligent being. The first option leads to inconsistencies.¹³ Yet, creation, insofar as it is an act of both (an) intelligence and love, is also a *finalisation*. Divine finalisation is intrinsic to the creative act. What in the creator is an *intentional finalisation*, in the creature is an *internal* or *structural finalisation*. The end of the creature is obtainable only by means of his natural activity, which in man is *free*. Thus, a picture of ethics founded on the philosophy of being and one based on transcendental philosophy are poles apart. This is so in what refers to the ultimate foundation (theonomy/autonomy), anthropological base (a unitary anthropology/anthropological dualism), or the articulation of specifically ethical concepts (the good, law, freedom).

Although the path from Kant’s theory to Marx’s is long and tortuous, an over-simplified summary may be helpful in this context. For Kant, a lapsed Lutheran, there are two worlds: the world of science (*phenomenal world*) and the world of morality (*noumenal world*). Marx, a Jewish atheist, denied the existence of the non-material world and recognised only the material world. He rejected Kant’s world of morality, while retaining Kant’s world of science. Consequently, his attempt to remedy the evils of Manchester capitalism was made without the benefit of belief in spiritual reality.

Returning now to the three philosophical traditions, it is important to understand that each is opposed to the other two. (The enemy of one’s enemy is not necessarily one’s friend.) Since traditional Western philosophy endures today primarily in the synthesis with biblical truth accomplished by Catholic philosopher-theologians, it is appropriate to cite several statements from the Catholic intellectual tradition regarding its relationship with the other two traditions. First, the Catholic tradition has unequivocally condemned socialism and all attempts to synthesise socialism with Christianity:

13 Cf. Joseph RATZINGER, *Creazione e peccato*, Milan: Edizioni Paoline, Cinisello Balsamo, 1986, pp. 17 & 20.

If Socialism, like all errors, contains some truth (which, moreover, the Supreme Pontiffs have never denied), it is based nevertheless on a theory of human society peculiar to itself and irreconcilable with true Christianity. Religious socialism, Christian socialism, are contradictory terms; no one can be at the same time a good Catholic and a true socialist.¹⁴

It does not follow, however, that Christianity is compatible with liberalism, the legacy of the Enlightenment. Pius XI writes concerning his predecessor, Leo XIII:

He sought no help from either Liberalism or Socialism, for the one had proved that it was utterly unable to solve the social problem aright, and the other, proposing a remedy far worse than the evil itself, would have plunged human society into great dangers.¹⁵

Because the point is often missed, it is appropriate to emphasize the Catholic tradition's condemnation of liberalism. In the words of Paul VI:

Certain concepts . . . present profit as the chief spur to economic progress, free competition as the guiding norm of economics, and private ownership of the means of production as an absolute right, having no limits nor concomitant social obligations. This unbridled liberalism paves the way for a particular type of tyranny, rightly condemned by Our predecessor Pius XI, for it results in the 'international imperialism of money.' Such improper manipulations of economic forces can never be condemned enough; let it be said once again that economics is supposed to be in the service of man.¹⁶

John Paul II explains that 'capitalism' may or may not be compatible with the Catholic tradition, depending upon what one means by the term:

Can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?

The answer is obviously complex. If by 'capitalism' is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a 'business economy', 'market economy' or simply 'free economy'. But if by 'capitalism' is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its

14 Pius XI, Encyclical Letter *Quadragesimo Anno* (15 May 1931), ¶ 120.

15 Pius XI, *Quadragesimo Anno*, ¶ 10.

16 PAUL VI, Encyclical Letter *Populorum Progressio* (26 March 1967), ¶ 26.

totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.¹⁷

More recently, John Paul II has made several statements specifically addressing the question with which this volume is concerned:

More and more, in many countries of America, a system known as 'neoliberalism' prevails; based on a purely economic conception of man, this system considers profit and the law of the market as its only parameters, to the detriment of the dignity of and the respect due to individuals and peoples.¹⁸

The profit motive, even when legitimate, cannot be the principal or even the exclusive motive of business or commercial activity, as such an activity must keep in mind the human factors and is subordinated to the moral exigencies proper to all human action.¹⁹

Since the pursuit of profit is not the sole end of [business] activity, the Gospel challenges business men and women to embody respect both for the dignity and creativity of their employees and customers and the demands of the common good.²⁰

Not only Christians, but also the man who perhaps most eloquently defends unbridled capitalism today, realise the incompatibility of the two traditions. Milton Friedman responded to Paul VI's 1967 Encyclical Letter *Populorum Progressio* with 'Papal Economics':

'On the Development of Peoples,' the encyclical just issued by Pope Paul VI, proceeds on two very different levels. One level is an eloquent and moving statement of needs and objectives – a plea for charity, justice and peace to which all men of good will must say Amen.

The second level is advice about how to improve the lot of 'people who are striving to escape from hunger, misery, endemic diseases and ignorance.' On this level, men of good will should say Nay – for acceptance of the Pope's advice is likely to hurt, not help, the very people who are the object of his concern.²¹

17 JOHN PAUL II, Encyclical Letter *Centesimus Annus* (1 May 1991), ¶ 42.

18 JOHN PAUL II, Post-Synodal Apostolic Exhortation *Ecclesia in America* (22 January 1999), ¶ 56.

19 JOHN PAUL II, Address to Executives of the Bilbao Vizcaya Argentaria Bank, cit. in 'Profit Shouldn't Be the Only Goal of Business, Says Pope: Meets With 800 Executives of Spanish-based Bank', *Zenit*, 29 April 2003.

20 JOHN PAUL II, Address to Participants in a Conference on 'The Business Executive: Social Responsibility and Globalization', cit. in 'John Paul II's Message to Christian Business Executives: Addressed to Conference in Rome', *Zenit*, 5 March 2004.

21 MILTON FRIEDMAN, 'Papal Economics', 24 April 1967, in FRIEDMAN, *An Economist's Protest: Columns in Political Economy*, Glen Ridge, New Jersey: Thomas Horton and Co., 1972, p. 204.

Paul VI had written:

Individual initiative alone and the interplay of competition will not ensure satisfactory development. We cannot proceed to increase the wealth and power of the rich while we entrench the needy in their poverty and add to the woes of the oppressed. Organized programs are necessary for 'directing, stimulating, coordinating, supplying and integrating' (John XXIII, *Mater et Magistra*, 1961) the work of individuals and intermediary organizations.

It is for the public authorities to establish and lay down the desired goals, the plans to be followed, and the methods to be used in fulfilling them; and it is also their task to stimulate the efforts of those involved in this common activity. But they must also see to it that private initiative and intermediary organizations are involved in this work. In this way they will avoid total collectivization and the dangers of a planned economy which might threaten human liberty and obstruct the exercise of man's basic human rights.²²

Friedman comments:

Despite the qualifications, the Pope clearly believes that central economic planning is the key to economic development; that free markets and private enterprise have at most a minor role to play.

The Pope has much company. This belief is today widely held by intellectuals, particularly in the underdeveloped countries. Moreover, it has been acted on in country after country. What have been the results? Precisely the opposite of those the Pope anticipates. Wherever the condition of the ordinary man has improved, wherever he has hope for a brighter future, there free markets and private enterprise have considerable play and central planning has been limited in scope. Wherever the authorities have engaged in detailed and extensive central planning, there the ordinary man has remained poor, or his condition has deteriorated.²³

Friedman goes on to compare East vs. West Germany, Malaysia and Singapore vs. India and Indonesia, and then concludes by invoking his patron saint, Adam Smith:

In the face of such evidence, how can the Pope's view be so widely accepted? The intellectual subtlety of the argument for free markets is, I believe, one part of the answer. The advantages of central planning seem obvious. As the Pope says, 'A planned program is, *of course*, better and more effective than occasional aid left to individual goodwill' (italics added). The advantages of the free market are more difficult to grasp. It takes a subtle argument to show how an individual who, in Adam Smith's words, 'intends only his own gain . . . is . . . led by an invisible hand to promote an end which was no part

22 PAUL VI, *Populorum Progressio*, ¶ 33.

23 FRIEDMAN, 'Papal Economics', p. 204.

of his intentions,' to show how 'by pursuing his own interests he frequently promotes that of society more effectively than when he really intends to promote it.'²⁴

Friedman's economic disagreement with the Catholic intellectual tradition is rooted in metaphysical disagreement. With respect to human society, Friedman is a radical individualist:

To the free man, the country is the collection of individuals who compose it, not something over and above them.²⁵

The ultimate operative unit in our society is the family, not the individual. Yet the acceptance of the family as the unit rests in considerable part on expediency rather than principle.²⁶

This stands in direct opposition to the Catholic and traditional Western understanding that the community is, in fact, something over and above the collection of individuals who compose it. This ontological denial of the existence of the community and, consequently, of the concept of the common good, leads Friedman to conclude that the sole objective of business management is profit maximisation:

The view has been gaining widespread acceptance that corporate officials and labor leaders have a 'social responsibility' that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.²⁷

To point out the incompatibility of traditional Western philosophy and post-Enlightenment liberalism is not to minimise the incompatibility of the Western tradition and socialism. But, Friedman poses a far greater temptation than Marx to contemporary students of business management. If our concern is to provide commerce education consistent with the nature of the human person, we should avoid teaching not only Marxist business ethics, but also shareholder-value maximisation.

24 *Ibid.*, p. 205.

25 FRIEDMAN, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962, pp. 1–2.

26 *Ibid.*, p. 33.

27 *Ibid.*, p. 133.

3. RESOLVING THE CONTRADICTION IN COMMERCE EDUCATION

Business management and business ethics educators must not evade the responsibility of addressing the contradiction between agency theory and most theories of business ethics, whether rooted in traditional Western philosophy, the philosophy of African cultural traditions, liberalism, socialism, or some other philosophical tradition. Truth was once understood to be unified, with academic disciplines standing in hierarchical relationships with one another.²⁸ Modern universities, however, are democratic, with free and equal academic departments. Each academic discipline has a high degree of autonomy. Each has its own truth, which may or may not be consistent with the truths of other disciplines.

While there is much disagreement within commerce faculties, the notion that business managers should seek to maximise profit or owner value is dominant. And while there is enormous disagreement within philosophy and theology departments about what it means to be ethical, nearly all business ethicists agree that some profit- or owner-value-maximising actions should not be performed, because they are unethical. The consequence is that students of business management receive a logically inconsistent education. We then send them into the real world of business and expect them to reconcile the contradictory elements of their education that their teachers never bothered to reconcile. And, since commerce students take more course units in business management than in business ethics, the latter is most likely to be discarded and forgotten.

Some scholars attempt to deny the contradiction between agency theory and business ethics, by arguing that ethical actions always lead to long-term owner-value maximisation. It is certainly true that, in many situations, there is no conflict between financial management theory and business ethics theory. For example, treating customers fairly can lead to a good reputation, provide the firm with a competitive advantage relative to rivals that cheat their customers, and lead to owner-value maximisation. It is also possible, however, for managers to perform unethical actions without being detected and without suffering damage to their firms' reputations and balance sheets.

The claim that there can *never* be conflict between acting ethically and maximising long-term owner value is untenable. A single counterexample

28 It is for a reason that a doctoral degree in most academic disciplines today is a 'doctorate of philosophy'. This is a vestige of a time, now long forgotten, when the branches of knowledge were understood to be branches of philosophy, which meant that they were connected to one another.

is sufficient to demonstrate its falsity. The pornography industry, which is unethical, because it does not produce a genuine good or service, is nevertheless highly profitable. Other counterexamples abound. To deny that unethical actions sometimes lead to more long-term owner value than ethical actions is to deny the existence of the difficult situations in which real-world managers repeatedly find themselves.

Failure to recognise that agency theory is unethical sometimes results from failure to take the concept of *maximisation* seriously. To *maximise* owner value is not merely to increase it. According to agency theory, if an unethical action would result in an increase of 100 units of long-term owner value and an alternative, ethical action would result in 99 additional units, then the manager is *obligated* to perform the unethical action. Acting ethically in such a situation would mean failure to *maximise* owner value.

The challenge cannot be met by denying the possibility of conflict between the dominant theory of financial management and all serious theories of business ethics. Meeting the challenge requires resolving the contradiction. This cannot be accomplished by any mere theory of business ethics, but only by a theory of ethical business management – an alternative management theory – rooted in a philosophical tradition with a correct understanding of human nature. Although it is not possible to develop such a philosophical theory of ethical management here, we would like to offer some suggestions of the shape that it would take.

It is necessary to make a reversal of means and ends. According to agency theory, providing a living wage to workers and producing goods and services for customers are means to the end of maximising a financial variable. This puts the horses behind the cart. Prudent financial management should be understood as a necessary means to the end of promoting the common good by providing a living wage to workers and producing goods and services for customers.

It is necessary to distinguish genuine goods and services from pseudo goods and services. Not everything that consumers can be persuaded to purchase is a genuine good or service. Only products that promote human perfection in some way should be regarded as goods and services.

It is necessary to reject the false dichotomy between ‘facts’ and ‘values’ or – in Friedman’s terminology – between ‘positive economics’

and ‘normative economics’.²⁹ To say that business managers should maximise owner value is to make a normative judgment. To say that managers should never perform unethical actions, even when doing so would maximise owner value, is to state a fact.

It is necessary to recognise business management as a profession. It is often excluded from the club of professions on the grounds that it lacks a code of ethics and does not police itself. But these are merely accidental properties of traditional professions such as medicine and law. The essential property of a profession is that it promotes the common good. Ethical business management does so, no less than any other profession.

Finally, it is necessary to develop a theory of ethical business management, as distinguished from a mere theory of business ethics, within a philosophical tradition that correctly understands human nature and the relationship between human persons and the communities to which we belong. There is a common assumption that all of our options in economics and business management lie somewhere on a one-dimensional continuum between extreme capitalism and extreme communism. In no other field of study are the alternatives restricted to one dimension. The problem with this continuum is that both extremes, and thus all compromises between them, are materialistic. The agreement between Marx and Friedman that human persons and human society should be understood materialistically is more significant than their disagreement about how material wealth should be distributed. We need to reject every position on this continuum and develop a theory of ethical business management within a philosophical tradition that has stood the test of time, because it correctly understands the nature of human persons as beings with both material bodies and spiritual souls, and the nature of the common good as non-reducible to material wealth.

Peter Drucker maintains that an adequate theory of ethical business management must be rooted in one of two philosophical traditions: ‘the Ethics of Prudence [which] goes all the way back to Aristotle and his enthronement of prudence as a cardinal virtue’ or ‘the Confucian ethics of interdependence’.³⁰ In both of these traditions, discussion of the

29 ‘Positive economics is in principle independent of any particular ethical position or normative judgments. As [John Neville] Keynes says, it deals with “what is,” not with “what ought to be”’ (FRIEDMAN, ‘The Methodology of Positive Economics’, in *Essays in Positive Economics*, Chicago: University of Chicago Press, 1953; repr. in Daniel M. HAUSMAN, ed., *The Philosophy of Economics: An Anthology*, Cambridge: Cambridge University Press, 1984, p. 211.

30 Peter F. DRUCKER, *The Changing World of the Executive*, London: Heinemann, 1982, pp. 245, 249.

human virtues is central.³¹ It may also be possible to develop a theory of ethical business management within philosophical traditions of African cultures, since the fact that these cultures have survived for centuries shows that they are highly consistent with a correct understanding of human nature. Anyone who believes that such a theory can be developed within some other tradition is welcome to make the attempt. The essays in this volume are initial steps towards such a theory.

31 'An ethics of virtue has been indisputably the predominant tradition in Confucian society' (James T. BRETZKE, S.J., 'The *Tao* of Confucian Virtue Ethics', *International Philosophical Quarterly* 35 [1995], p. 27).

KEYNOTE ADDRESS: THE RELATIONSHIP BETWEEN ETHICS AND BUSINESS MANAGEMENT

JOHN GITHONGO

Ladies and gentlemen, all protocols observed.

It is indeed a great pleasure for me to address this distinguished gathering of academics and scholars so early in the morning. However, I need to make a small confession. When one retires for the night knowing that the following morning he is going to face and address academics and scholars, I can assure you that sleep becomes a very scarce commodity.

So, for all those professors and students who cannot wait to mark this paper and grade it as harshly as some of my papers have been graded in the past, I wish to inform you that I have already exercised my executive powers as a Permanent Secretary of the Government of Kenya and graded the paper 87%, which should comfortably be an 'A' grade, I hope

But, more seriously, I wish to congratulate the organisers and the minds that conceptualised this series on ethics and business management at this great university. This is principally because this conference proves yet again that there is increased awareness and consciousness of the role that ethics should play in all spheres of life, whether personal, public or business.

Strathmore University is founded on the sure and certain foundation of a wholesome education that caters to the intellectual, spiritual (some would say 'moral') and social needs of the mind, body and soul. This is as it should be, because knowledge for its own sake is of no use to anyone. What matters, and what is useful to those who pursue knowledge, is the search for truth in a way that improves the human condition.

Ladies and gentlemen, this is the challenge that lies before us all. As you very well know, however, that only begs the question, 'What is truth?'

In my Sunday school-going days, we were taught that '*The truth shall set you free*'. This is on the authority of no less than the Good Book itself, in the Gospel of John, chapter 8, verse 32. However, and as some of you may know, the reality is often that the truth puts you in trouble! In fact, Herbert Agar (1897-1980), in a book titled *A Time for Greatness*, observed that the truth that makes men free is for the most part the truth that men prefer not to hear. This is the wisdom that may have led a famous writer

known as Mark Twain to say, 'Truth is the most valuable thing we have; let us economize it.'

And what of ethics, or morals? To put it simply, ethics is that branch of philosophy that investigates morality and, in particular, the varieties of thinking by which human conduct is guided and may be appraised. This necessarily involves judgement on the rightness and wrongness of actions, the virtue or vice of the motives that prompt them, the praiseworthiness or blameworthiness of the agents who perform these actions and the goodness or badness of the consequences that arise from the actions. And after all that, there is the great paradox contained in the question, 'Whose morality is the determinant morality against which conduct and actions are to be measured and judged'?

For me, these are questions that are best answered by assemblies such as these. There may actually be no right answer to these questions. On my part, however, I think that the safest thing to say is that all human beings, by virtue of their constitution, their conscience and socialisation, know instinctively what is right and what is wrong. The choice that all of us exercise is whether we will do the right, or the wrong.

Coming back to the topic for discussion in this conference – the relationship between ethics and business management – the reality that we all know is that there is not much ethics in business, or in the management of business. In this context, it is often said that there is no such thing as an honest businessman and that to engage in business is literally a guarantee of compromising the virtues of honesty, truth and ethics.

Is this situation a social truth? Is it true that one cannot be a businessman and at the same time be honest, ethical and moral while going about business? Considering that the aim of business is to make money, or to profit, is it true to say that behind every great fortune lies a great crime?

Ladies and gentlemen, our experience as Kenyans would certainly bear such observations out. Such is the state of the conduct of public affairs that one is forced to confront moral and ethical questions every day whilst going about his or her business. In Nairobi, it is not unknown for the City Council to give a contract for the supply of chlorine for water purification but to pay for chalk delivered by a businessman.

Similarly, the government has for many years paid for goods and services that have not been delivered. The payees are in every instance businesspersons. Yet this state of affairs is not confined to government contracts alone. The same situation obtains in the private sector. You

need only visit the commercial courts anywhere in this country and to investigate the nature of cases coming up for hearing to realise that even *wananchi* treat each other the same way. Contracts are regularly broken, promises are habitually not kept and the concept of a 'gentleman's handshake', or 'gentleman's agreement', died a natural death a long time ago.

In the 1960s and 1970s, there was a worldwide movement called Moral Rearmament. It was concerned with inculcating and promoting morality in all spheres of human life. Even Moral Rearmament has gone off the radar screens, however, particularly in the 1980s and 1990s. The only thing that seems to be in fashion nowadays is the pursuit of profit, or money. This in itself is a great tragedy, for there is much more in life, and to life, than how much money one manages to accumulate before it is time to go on to the afterlife.

In government, the challenge that we are facing in the new administration is how to reintroduce ethical government. In this way, our responsibility is to promote ethical government and ethical management of public resources. All of you realise, of course, that I am here referring to that phenomenon otherwise known as 'corruption'. I leave it to you in academia to tell us whether corruption of the mind and soul is a consequence of moral and ethical decay. On my part, I have no doubt that that is indeed the case.

The reason even government can be said to be 'corrupt' is that government is not a creature or thing that exists in abstraction. Government consists of human beings, people, men and women. The term 'government', therefore, refers to the corporate whole of the individuals that make up the sum of its parts.

This administration, I am happy to report, is acutely aware of this. This is why the first pieces of legislation that have been enacted are the *Anti-Corruption and Economic Crimes Act, 2003* and the *Public Officer Ethics Act, 2003*. In this respect, no less than His Excellency the President is leading the moral and ethical rearmament of Kenya. President Kibaki is on record as stating the following:

Corruption is one of the most serious problems Kenya faces. It has undermined our most important institutions and tarnished our reputations as Kenyan leaders. This is going to change. As President, I intend to lead this change. Corruption, they say, starts at the top. Now the fight against corruption in Kenya will start at the top.

Ladies and gentlemen, you will agree with me that this statement of His Excellency the President reveals the highest political will Kenyans have

known to fight corruption. My own department of Governance and Ethics in the Office of the President is a further manifestation of this.

As we in government strive to 're-arm' the conduct of public affairs morally and ethically, there is great need for a partnership with the private sector to make sure that we are all working together and walking along the same road. This calls for the same degree of commitment in re-establishing ethics and morality in the private sector as there now is in the public sector. This is what makes this conference on the relationship between ethics and business management in a university so important.

In only a few months or years, all graduates of this university will be looking for jobs in the public and private sector. If you enter the workplace without firm ethical and moral anchors, your work and attitudes to work and service will definitely be affected by the wider conditions in which you work. The working environment will not be conducive to honest reward for honest work. When you are faced with a choice between the hard (and often financially unrewarding) right and the easy (and often very profitable) wrong, it will only be too easy to be swept away by the tide of corruption and unethical practices.

As the now popular saying goes, '*Yote Yawezekana*' ('Everything is possible' [after Kenya's change in government]). Many did not believe that there could be a regime change, or that Kenya could have an administration that cherishes ethical conduct and moral government. Yet these things have come to pass before our very eyes.

The challenge, therefore, is not to lose momentum. However, the great fortune that has befallen us as Kenyans will evaporate like the morning mist when the sun comes up, if we do not all take radical measures to fight the good fight. This translates into all Kenyans, wherever they are, making the conscious and deliberate choice to stand for justice and the truth.

As with everything else, there is a price to pay. It is not easy to go against a strong and well-entrenched tide that does not value ethical conduct, whether in business or in the public sector. Yet, we all know from history that it does not take a multitude to make the changes that affect all human beings. It is individual men and women that make the change. It is the Jomo Kenyatta's, the Julius Nyerere's, the Nelson Mandela's, the Mahatma Gandhi's, the Winston Churchill's, the Franklin Delano Roosevelt's and the Florence Nightingale's that make the difference.

You, gathered here, are extremely privileged. You have the privilege of a higher education and an academically stimulating environment. You have the greater privilege of being in an institution that recognises the proper

place of ethics and morals in the imparting of a wholesome professional education as business managers. This places a great responsibility on you as tomorrow's business leaders to drive the change towards the moral and ethical rearmament of Kenya's business environment.

As I conclude, let me state once more my gratitude for the honour of speaking to you this morning. I take this opportunity to wish you rewarding deliberations in this first of a series of ethics conferences. I also look forward to seeing, and meeting, great champions of ethical business practices and management graduating from Strathmore University.

Thank you.

ANNEX

Fighting Corruption – The Seven Critical Pillars of the Government's Plan, and progress thus far:

- a. *Leadership*: This is sometimes called political will. The willingness and ability of a nation's top leaders to lead from the front and create an enabling environment for the fight against corruption. In this, the President himself will take the lead in the fight against graft and this leadership informs the entire programme.
- b. *Dealing with the Past* (also called transitional justice): Past economic crimes, especially those that have manifestly led to the impoverishment of the Kenyan people, need to be addressed in a systematic manner as part of a credible process. To this end, the government has created a taskforce exploring the need for the establishment of a Truth, Justice and Reconciliation Commission. The Goldenberg Commission also demonstrates the government's particular approach to dealing with the past. By removing this complicated and unprecedented, alleged economic crime from the judiciary and subjecting it to systematic and transparent scrutiny, we hope to help leave our judiciary relatively unencumbered by some of the more complicated economic crimes of the past during this period of its own reform.
- c. *Legal Framework*: The laws and regulations that allow political will to be implemented have been and continue to be overhauled. As you are aware, the *Anti-Corruption and Economic Crimes Act, 2003* and the *Public Officer Ethics Act, 2003* are both now law, after being granted presidential assent. The processes of both declaring wealth and establishing the Kenya Anti-Corruption Commission have started.
- d. *Institutions*: The process of institutional reform has started apace with a radical surgery of the judiciary being a priority for the Government. This is born out of the recognition that reform of other key governance institutions is dependent first on positive changes in this important governance institution.
- e. *Private Sector*: As a key stakeholder in the battle against corruption and the institutions that fight it, the private sector is fully integrated into the government's anti-corruption plan. Therefore, it is for this reason that, for example, I find myself here today. Strategically, one can argue that within the private sector we have started our engagement with the professions, for their probity is essential to governmental accountability and transparency. As we go about the process of judicial reform, for example, we recognise that the government's efforts will come

to naught, if they do not go hand in hand with reforms of the legal profession. Fortunately, the Law Society of Kenya has committed itself to change in the new era that both bolsters and coincides with the government's own plans vis-à-vis the sector.

- f. *Civil Society*: The government considers Kenyan civil society the engine of activism and the key to vigilance in the fight against corruption. The media in particular continues to be the primary mobiliser of public opinion on corruption.
- g. *The International Community*: The international community is a key stakeholder in today's globalised world but especially in Kenya's anti-corruption plan, since it contains many elements developed in partnership with the development partners already.

Current thinking within the government has been to separate out past human rights abuses from past economic crimes and deal with the two separately. Human rights abuses for which evidence is still readily available in the form of broken bones, scars on bodies and destroyed homes is better dealt with via an instrument such as a truth, justice and reconciliation commission, if the recently created taskforce studying whether such a commission should be created recommends that it should. Economic crimes, on the other hand, are more complicated and evidence more troublesome to dig up and organise for criminal or civil prosecution. To this end, different instruments suggest themselves as the most appropriate for this category of past wrongs. The Goldenberg Commission is a good example. Had the assorted Goldenberg cases been allowed to trudge through the courts, it is clear that, at the very least, they would have succeeded in confusing us still more and in reducing the possibility that justice would be done in regard to the biggest single set of scams ever perpetrated against the Kenyan people. Perhaps the principle of restitution should be the overriding one where economic crimes are concerned.

ALTRUISM AND HUMAN FLOURISHING: THE HIGH AND LOW DIMENSIONS OF ‘SELF-INTEREST’ IN BUSINESS ENTERPRISE

CHRISTINE W. GICHURE

1. INTRODUCTION

Every craft and every inquiry, and similarly every action and pursuit, is thought to aim at some good; and for this reason the good has rightly been declared to be that at which all things aim Now, as there are many actions, arts, and sciences, their ends also are many; the end of the medical art is health, that of shipbuilding a vessel, that of strategy victory, that of economics wealth.¹

Aristotle defines ‘good’ in terms of the goals, purpose or aim to which something or somebody moves. ‘Good’ is that which under certain conditions is sought or aimed at. Later in the same work, Aristotle tries to clarify this notion of ‘good’ by showing that it is hierarchical. Hence, there are actions, projects, aims, etc., whose direct goodness consists in being a means towards other higher forms of good, all of them often leading to a possible maximum, which he terms *eudaimonia*. Experts in classical Greek tell us that this is a difficult word to translate. The nearest English translation they give is ‘happiness’, understood variously as blessedness, prosperity, the state of well-being or faring well of a man well favoured in himself and in relation to the gods. What is clear in Aristotle’s use of the word is that *eudaimonia* includes, on one hand, excellence (*arête*) of behaviour or character, what we would today refer to as integrity. However, equally important for *eudaimonia* is also that one must fare well. That is to say, one must not only be good, she must also be efficient and be favoured by the divine.

The craft we have in mind in this paper is business; the project of the businessman and, in agreement with Aristotle, its aim, its good, is faring well. Behaving well and faring well then constitute, in an Aristotelian sense, the happiness of a man’s career-life taken as a whole.² The main objective of this paper is to establish the meaning of those two concepts: well-being of a person and faring well. The paper seeks to establish the

1 ARISTOTLE, *The Nicomachean Ethics of Aristotle*, trans. W. D. Ross, Oxford: Oxford University Press, 1975, I, 1, 1094a19.

2 Cf. C.W. GICHURE, *Basic Concepts in Ethics: With an Outline of Different Methods in Contemporary Moral Philosophy*, Nairobi: Focus Books, 1995, pp. 72 and 108.

relationship between human well-being, and doing well in business enterprise.

By business, I understand any human undertaking or work that is carried out for economic purposes, that is to say, for survival and well-being. When I delve into the meaning of ‘economics’, I am referred to its original meaning, *oekonomica*, which literally means ‘household administration’.³ Over the years, however, the concept has acquired other related meanings in the philosophical, scientific and theological senses. Thus, we talk of the philosophy of economy or of allocation of scarce resources. In the scientific sense, economics is the social science that studies production, distribution and consumption of material goods. In art, it is the technique of planning and programming, whereas in the world of work, economy and business are two related terms aimed at producing riches or the material well-being of society. So, economy as a notion encompasses the whole process that involves such things as production of needed goods, or industry; the transportation of those goods to the place where they are needed; and the task of their distribution to those who need them, or commerce.

2. VALUES IN BUSINESS AND ECONOMIC LIFE

In the text mentioned earlier on, Aristotle does not conclusively point out what it is that one has to do to ‘fare well’. He does not tell us in black and white whether it is a state of life or a process; whether it is the result of luck or efficiency in terms of know-how and technique, or whether it is simply a question of insight and opportunism – these details he leaves to us to discern. But he gives us sufficient details to show that *eudaimonia* is not possible outside a life imbued with certain human values. For the sake of our topic, I have chosen a case study of what today we could call success in business, a win-win situation which I think qualifies as ‘faring well’ for our examination later. It consists of testimony given by Ralph Larsen, Chief Executive Officer of Johnson & Johnson (USA), in an exclusive lecture published by Sears,⁴ which tries to show that ‘faring well’ in business needs an ethical grounding based on certain human values.

According to Larsen, strong values were instrumental in charting a course that proved successful for their corporation. They called that charter their ‘credo’ and it became the secret of their business success.

3 ARISTOTLE, *The Works of Aristotle translated into English*, Vol. X: *Politica. Oeconomica*, ed. W. D. Ross, London: Clarendon Press, 1972, *Oeconomica*, I, 6, 1343a-1345b.

4 R. S. LARSEN, ‘Leadership in a Values-Based Organization’, Sears Lectureship in Business Ethics, Center for Business Ethics, Bentley College, 7 February 2002, pp. 11-12.

They called it their ‘credo’, because it became the guidepost of what the leadership at J & J believed in. That credo is a one-page document, which outlines in very simple yet profound management philosophy the essential values to be upheld by everyone at Johnson & Johnson world over. It says:

- Our first responsibility is to our customers, to give them high quality products at fair prices.
- Our second responsibility is to our employees, to treat them with dignity and respect and pay them fairly.
- Our third responsibility is to the communities in which we operate, to be good corporate citizens and to protect the environment.
- Our final responsibility is to our shareholders, to give them a fair return.

The CEO goes on to affirm that their ‘credo’ was built on the belief that if one does a good job in fulfilling the first three responsibilities, then the shareholder will come out right. Hence, their ‘credo’ was supposed to be their expression of managing the multiple values of product, people, planet and profits, spelt out in such moral values as honesty, integrity, respect for others, fairness and straight dealing. These are the values that ground their operations. As a result of concerted effort to live by the ‘credo’, J & J, according to the CEO, was able to reap billions of dollars of profits as follows:

- In the year 2001, sales were \$33 billion (three times what they had been ten years earlier).
- They had seventeen consecutive years of double-digit earnings increase.
- They had thirty-nine consecutive years of dividend increases.
- For shareholders, the market value of J & J ended in 2001 at more than \$180 billion, up from approximately \$38 billion ten years earlier.

And, to confirm it all, Larsen concludes: ‘Our business is healthy, and the future looks bright.’⁵

What Larsen has outlined for us is a set of values: values that drive their business. In some cases, such values may be achieved fully or to some extent of acceptable compromise. Values determine what business people do and how others react. Values themselves can be chosen in such a way that the driving force is harnessed to rational and agreed-upon purposes, making the resulting business practices defensible and

5 LARSEN, p. 12.

consistent – corporate action. However, what these values are and how they are established and enforced, and by whom, are important ethical questions.⁶

That brings us to an important question: what exactly are values? A theoretical examination of the notion of the term value shows that it derives from *axia*, in Greek, meaning something that has a price. Value is the representation of something desirable, an ideal that has some effective force. In Aristotelian language, ‘value’ would be equivalent to ‘good’, something desirable because it is conceived to be good to have it. In this case, value and good appear to be just two sides of the same notion, differentiated by semantics. Whenever we refer to something or some action as desirable, we infer that it is good to have it. It also implies that we need to pursue it through some action, so that both the action and the object pursued are values in different ways. As regards the action, it is considered that it is worthwhile and praiseworthy to make the necessary effort to attain the good in question. If it is some object, then value here means the safekeeping of the valuable object, which again necessarily also involves the realisation of some action.

The term ‘value’ is analogical, in the sense that there are many kinds of values. Something can have economic value, artistic value, educational value, etc. Specifically, in economics, ‘value’ expresses the utility of some particular object or its power of purchasing other goods. Hence, economists distinguish between ‘value in use’ and ‘value in exchange’. What is significant in this economic distinction is that often the things that have the greatest value in use may have little or no value in exchange.⁷ There are also human values and moral values. In the context of business, the concerns are how to relate and uphold both human and moral values, while not losing sight of the values specific to business and economic enterprise. In business, such values include cultural norms that represent the expectations of business clients and customers, legislators, employees, suppliers and the general public. Values also include those norms that set standards of technical skills in business – that is to say, how to run the process competently – and those that establish how corporate managers should manage the resources entrusted to them, etc.

The core value issue in business is the fact that there are different players, who often have different perspectives: they may have some values in common, but they also have others which may conflict among themselves. These different players are the investors, the consumers, the

6 J. DONALDSON, *Business Ethics: A European Casebook*, London: Academic Press, 1992, p. 1.

7 A. SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Oxford: Oxford University Press, 1993, Bk. I, p. 34.

employees and the directors, the management and, in a rather indirect way, the community where a business is carried out and the general public, in as much as the common good is concerned. Johnson & Johnson's 'credo' was their expression of managing the multiple values of product, people, planet and profits. It was spelt out in such praiseworthy values as honesty, integrity, respect for others, fairness and straight dealing.

Another name for the actions that express the moral values that grounded their operations is 'virtue'. Aristotle's definition of 'virtue' is that of a good habit that inclines the one who has it to the right use of his powers. He also describes it as the habit that makes the one who has it good and, good his works.⁸ Unfortunately, the employment of the term 'virtue' has for some time deteriorated, so much so that, in a famous address to the French Academy, Paul Valéry, a prominent language scholar, declared that the term 'virtue' had completely died out. As evidence, he claimed that today one could only find it used in operettas, the catechism and the Académie Française.⁹ Yet, ethical virtue is what Larsen and others refer to as value in their 'credo'.

In Aristotelian ethics, virtue (*arête*) or excellence of a person consists in actions that lie between two extremes, both extremes being vices. Virtue consists in an action which, following right reason, leads one to choose the mean between an excess, say of valour, and the defect, which in this case would be cowardice. The establishment of that 'mean' after repetition of virtuous acts leads the wise man to know the norm or regulation.

Johnson & Johnson's 'credo', with the values it upholds, is, according to Larsen, enshrined in a one-page document, which is in fact a code of ethics and of conduct, a regulatory set of norms to ensure concerted efforts towards a set goal: service and profits. Norm refers to regulation. It is true that often, at the mere mention of ethics, the first thing that comes to many people's minds is that someone wants to regulate them somehow, to tie them down or to curtail their free decisions. Hence, not only 'virtue' but also 'ethics' and 'norms' send a cold shiver to not a few people in business. Yet, this need not be so. A norm or regulation is, above all, a manner of safeguarding something valuable, so that it is not damaged, either by vandalism or by misuse. Norms exist for the protection of whatever is valuable. One of their characteristic features is that they are given as a pre-condition, a means to an end. Norms,

8 Cf. ARISTOTLE, *Nicomachean Ethics*, II, 6, 1106a14-25.

9 Cf. J. PIEPER, 'Timeliness and Timelessness of the Cardinal Virtues', lecture given at Netherhall House, London, in a conference on Lasting Values and Modern Man, 24 November 1974, p. 3.

therefore, make sense only when they are related to an ideal, to the acquisition of certain values. Consequently, they can become merely cosmetic, if the underpinning values are unclear or if such values are not seen to be true virtues. For that reason, their observance is not an end in itself, but rather is always oriented towards the preservation of something that is the issue.

Consequently, whereas we can admire an entire corporation for the observance of certain regulations, people in that corporation still need to understand and to internalise those norms as something personal, in order to enable them to act as convinced persons. That is why, if the observance of a norm for its own sake were to violate the ideal for which the norm existed in the first place, such a norm would lose its force. Hence, contravention of a norm is reprehensible, not for the sake of the norm but for the sake of the value or good on which it infringes. In the absence of such an understanding, norms may just be a nuisance. Likewise, codes of conduct and codes of ethics are useful instruments only when and where there is a good general background of human and moral values. They do not have the property of maximum but minimum, a beginning within a process that is to bring about the good or attainment of the desirable values. Yet, compliance with certain norms is not only desirable but also demanded. For example, in the case of games, if someone were not to adhere to the norms, she not only would offend against the values inherent to the game in question, but would also rob the spectators and fans of the enjoyment of the game, thus spoiling the 'aim' of the project. The same can be said of any profession or business. Since norms are rules that we formulate with the aim of maintaining certain values, such norms should not be arbitrary, archaic or disrespectful of human dignity. Rather, they should be inspired by authentic values. Norms are meaningful only within the orbit of values.

3. THE ALTRUISM OF BUSINESS ENTERPRISE

Plato attributes the origin of business to the fact that 'the individual is not self-sufficient, but has many needs which he can't supply himself.¹⁰ Business, therefore, exists not as an end in itself, but rather one engages in it in order to serve certain specific means to an objective, such as growth, efficiency and productivity. Hence, a society's economic development is closely linked to that community's ability to do business and to do it well, to its ability to produce goods and services that its members want and need for their well-being, as well as to maintain a fair distribution of those goods and services wherever they are needed. Thus, 'we must

10 PLATO, *The Republic*, trans. H. D. P. Lee, Harmondsworth: Penguin Books, 1955, II, 369b.

produce at home not only enough for our own needs but also enough goods of the right kind for the foreigners who supply us'.¹¹

In carrying out these two roles, economic activities become determinants of certain human relations that give rise to such questions as justice, mutual trust and respect, fairness, accountability, etc. These human relations confer to business activity a strong ethical significance, because, just as the objective of an economy is the protection and improvement of the human material condition, that of ethics is the flourishing of the same condition, the flourishing of persons. For that reason, economic strategies of any kind receive their ultimate justification and strength not only from purely economic objectives, but also from their moral values and moral objectives. In this sense, it can rightly be said that ethics gives legitimacy to business, because to be legitimate a business must be seen to be serving society's needs. For the same reason, the ethical relation of business to society is that of a pre-condition for its own survival. Business needs a social atmosphere in which to operate smoothly and that atmosphere in turn needs to be perceived as coinciding with the interests and values of the society it intends to serve. This holds true at every level of business.

Hence, the ultimate rationale of economic systems and economic strategies is an ethical one, and that is human dignity. In relation to business and economics, rather than being an added value, ethics is something intrinsic to both, because any economic or business activity is necessarily fraught with human factors and wherever there are human beings their deeds have some inevitable ethical dimension.

One such dimension is that of altruism, the concern for other people, because man refers himself to others or is referred to others in every human act, regardless of whether that act is 'social' or 'antisocial'.¹² Thus, without ethics, there would be no criteria for fair distribution and use of goods. Ethics' role is to point to the human good, to happiness, to justice. However, ethics does not guarantee success in business and perhaps that is why Aristotle had to mention that faring well is also partly good fortune, a gift.

In the Aristotelian framework underpinning the arguments of this paper, one task of ethics is to support Plato's claim in the *Republic* that we are better off being just, concerned with the interests of the others, than being unjust, which is the same thing as to say, unconcerned about

11 PLATO, *The Republic*, II, 371a.

12 G. GILDER, 'The Altruism of Enterprise', *Cuadernos 10 'Empresa y Humanismo'*, publication of the University of Navarre Permanent Commission of Business Ethics, 1990, p. 10.

the interests of others. Justice always makes reference to another person's welfare. In modern sensibility, it is this altruism that has come to play a major role. Concern for others' welfare not only wins our admiration, but also in some cases causes real awe as a crucial quality in any one's character that commands our respect. For this reason, the content of 'good life' in Platonic understanding is not based so much on 'force' as on a reasoned account of what human flourishing is or what human life is all about. Just is the man who operates within a meaningful framework, and within this framework altruism is central, because it is natural to recognise that there is a certain dignity and worth in other people's humanity.

4. THE TENSION BETWEEN ETHICS AND BUSINESS SUCCESS AS MAXIMISATION OF PROFIT

The impression is often given that business and economic activity stand in opposition to ethics. That impression, though erroneous, is not new. It is as old as business itself. Concern with ethics in business dates to the dawn of human civilisation. We read that, under the rule of Hammurabi, the codes of ancient Babylon dealt with prices and trade. In the Book of Deuteronomy, the Hebrew people are told to have accurate weights and measures. The goal of such codes was to temper the pursuit of profit with fairness. Systems of law evolved to regulate commerce and enforce contracts. Throughout history, principles of business ethics have developed in reaction to unfair practices.¹³

Ethics still constitutes the only extant guide in our aspirations for a better world. It remains the sure north and judge of our conduct. Nonetheless, its delimitation and orientation become more complicated when we sit down to analyse what we mean by ethics. Whereas everybody postulates, with greater conviction than ever before, regarding the importance of ethical criterion in all spheres of activity, we seem to affirm or distrust anyone attributing to himself or herself the authority to tell us what is or what is not right and good to do. For that reason, we find today all kinds of ethical theories. Some of those theories do not hesitate to declare that the sole aim or purpose of business is 'self-interest', understood as the maximisation of one's profits by all means, so long as one does not clash with the law.

A renowned defender of that economic theory is Milton Friedman, who in 1962 published a well-publicised debate on the social responsibility of corporations. He argued that the legitimate goal of business is to make

13 I. A. LIPMAN, 'Business Ethics in the 21st Century', Sears Lectureship in Business Ethics, Center for Business Ethics, Bentley College, 2 November 2000, p. 8.

a profit within the bounds of the law and that in a free economy, 'there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game'.¹⁴ Thus, for Friedman and other adherents of this theory, maximising profits is an inalienable right of persons in a free society. Within that framework, it is believed that business and ethics belong to different categories and, just like water and oil, should not mix. For the more radical supporters of this view, the notion of business ethics is, in effect, a contradiction in terms, very much like the concept of a rounded triangle.¹⁵ But this stand appears to be misplaced, due to a lack of understanding of the true concept of 'self-interest', as well as a misconception of human 'well-being', law and justice.

There is sufficient evidence to show that a whole section of economists and businessmen who believe in the non-compatibility of business and ethics do so on the grounds of the theory, attributed to Adam Smith, that capitalism is basically based upon 'self-interest'. The fundamental problem of this outlook is to be found in the 'invisible hand' theory forwarded by Smith in his famous work *The Wealth of Nations*.¹⁶ There, his thesis is that capitalism is a kind of alchemy, which converts avarice and greed, through an invisible hand, into capitalist prosperity.¹⁷ He seems to suggest that the economic man is unable to act for any motive other than financial gain, so that if any semblance of virtue accrues from the interaction, it can only come about through an 'invisible hand', because it was not intended. It happens indirectly. This implies that prosperity can only be achieved through an amoral or immoral system, which leaves no room for benevolence, friendship, charity, solidarity or any form of 'other' mindedness.

The argument sustained in this paper is that this incompatibility need not be so, because economic prosperity derives from the same values that produce human prosperity in our personal relations and families. The thesis held here is that one cannot altogether separate economic life from family life, nor from social and spiritual life, because all of these form one single unity. There is need to understand that unity, a unity that derives above all from the understanding and appreciation of human dignity, its spiritual values and affirmations. To maintain a dichotomy between man the economist and businessman, on the one hand, and man the

14 M. FRIEDMAN, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962, p. 133.

15 P. K. IP, 'Profit and Morality: Problems in Business Ethics', in *Ethics in Business and Society: Chinese and Western Perspectives*, ed. G. K. BECKER, Berlin: Springer-Verlag, 1996, p. 26.

16 SMITH, Bk. IV, ix.

17 GILDER, p. 9.

upholder of human and spiritual values, on the other hand, is equivalent to maintaining that, in order to be a successful businessman, one cannot avoid being a schizophrenic, a person either leading a double life or completely deprived of the possibility of living a moral and ethical life. If business and ethics do not mix, then business is a kind of 'Faustian Pact, a deal with the devil by which we get prosperity and wealth in exchange for giving in to avarice, greed and sin. . . . A Faustian source of bounty and wealth.'¹⁸ It would seem that this is what sums up the general theory of successful business or capitalism.

In his *Politics*, Aristotle suggests that 'a man must have so much property as will enable him to live not only temperately but liberally, for if the two are parted liberality will combine with luxury'.¹⁹ He goes on to indicate that liberality and temperance are virtues compatible with prosperity. These two qualities, which should be inseparable from property, are, according to him, the only ones eligible in relation to prosperity. By 'temperance', he means that property should be used with some measure. In business, that points directly to the question of avarice and greed. For Aristotle adds:

Some persons are led to believe that getting wealth is the object of 'economy'²⁰, and the whole idea of their lives is that they ought either to increase their money without limit, or at any rate not to lose it. The origin of this disposition in men is that they are intent upon living only, and not upon living well; and, as their desires are unlimited, they also desire that the means of gratifying them should be without limit.²¹

Aristotle clarifies further the question of prosperity and wealth by distinguishing two approaches to business. One of these he calls 'economy' simply; the other he calls 'chrematistic'.²² The agents of the two are *homo oeconomicus* and *homo chrematisticus*.²³ Good economy is the kind of faring well (well-being) that combines the interests of other people 'altruism' with one's own. 'Chrematistic', on the other hand, is the economic approach whose direct purpose or end is simply monetary benefit. Logically, one could argue that in our world today no one can think of an economic activity or business where money is not involved.

18 GILDER, p. 6.

19 ARISTOTLE, *The Works of Aristotle translated into English*, Vol. X: *Politica. Oeconomica*, ed. W. D. ROSS, London: Clarendon Press, 1972, *Politics*, II, 6, 1265a30.

20 The word Aristotle uses is 'οικονομία' or 'oekonomia', which translates to 'household administration'.

21 ARISTOTLE, *Politics*, I, 9, 1257b38-1258a2.

22 ARISTOTLE, *Politics*, I, 9, 1257b10-1258a2.

23 Cf. R. YEPES STORK and E. J. ARANGUREN, *Fundamentos de Antropología: Un ideal de la Excelencia Humana*, Pamplona: Euns, 1998, p. 264.

But what Aristotle calls ‘*chrematistic*’ is the attitude of the businessman who pursues money as if it were the first and last end of human existence. Whereas, for *homo chrematisticus*, faring well is simply accumulating money, for the true *homo oeconomicus*, material wealth is understood as a means towards ‘good life’, a life which, as we have seen, includes being mindful of other people’s well-being. Again, for the *chrematistic* person, to be rich means to be economically powerful, able to obtain whatever one wishes to obtain. For *homo oeconomicus*, the true economist, to be rich is to have goods sufficient to allow one to lead a decent life and, in one way or another, enable people within the community to partake of that wealth in a just and fair manner – for example, through well remunerated services.

Money has much to do with faring well or well-being, as we have just described it. In the modern world, money is the ordinary medium of business transactions; it is the usual instrument or measure for the exchange of goods and services with a universal recognition. Money is the most excellent artificial medium of all business and a universal instrument for the acquisition of everything. Hence, money is a power all in itself. Through exchange rates, someone can travel to practically any part of the globe and buy goods. With money, one saves time and energy. With it, one can not only buy things, but also can buy other people’s time in order to accomplish one’s own projects, buy their knowledge and use their energy instead of spending one’s own time doing certain things. In that sense, money becomes the symbol of power and, in a way, has a role to play in faring well or well-being. And here is where the moral problem arises when this self-love overrides all other human considerations.

One more problem of the *chrematistic* person is that he judges the value and the possibilities of people and of their actions according to the amount of money they can make. Similarly, he shows disdain for anything that does not maximise profits. The *chrematistic* is a harsh person to work with, for he will use any means to reach his maximisation target. He can even call upon ‘ethics’ to serve his ambitious goal and, in the end, it is not unusual for *homo chrematisticus* to resort to corrupt deeds. The *chrematistic* soon learns that with money you not only buy things, but can also buy people, favours, power, lives (in the sense of workforce) and earn for oneself praise and adulation. Money makes people feel important.

The problem of the maximisation of profits arises when what was meant to be a means becomes so overvalued as to become a person’s life project far and above any consideration of the human condition of the

various stakeholders with whom the businessman has to interact with. It is then that ethics and business collide, because the role of money ceases to be a means of humanisation and mutual service and becomes instead the end of all business and economic interaction. Once the economic and business activities are converted into the bottom-line of human existence, roles are reversed, so that man becomes an instrument in service of the economy (read money), rather than the other way around. Man ends up being a mere instrument, an object of moneymaking.

There is another problem of the chrematistic approach to economics: the tendency to usurpation as a way to satisfy greed. Usurpation is the unlawful seizure and possession of other people's goods, the phenomenon we now call corruption. This seizure includes the manipulation of other people's various powers, be they mental, physical or psychological.²⁴ What is it but usurpation to manipulate other people's energies, education and personality in order to receive services that are not equitably remunerated? It is usurpation to take unjustly what belongs to another through the misuse of their capacities, their energy, time, ideas or learning without proper reciprocation when the business enterprise makes high profits for itself. This is indirect usurpation. Direct usurpation happens through what we normally refer to as corruption. Corruption in the sense of bribery and fraud is only another means to pushing one's way to the maximisation of wealth, or the self-imposition of the mighty over the weaker.

5. HUMAN FLOURISHING: OBJECT OF BUSINESS, ETHICS, AND ECONOMICS

The theory that the business of business is 'self-interest' or egoism seems to suggest that the bottom line of life in general is simply about financial performance. But this theory is erroneous on two grounds: first, because it forgets that 'faring-well', as Aristotle puts, is also a gift. Business is a form of work and, therefore, work as an activity is an ordinary source of wealth. However, a person's capacity to work – to do business for example – is not sufficient for 'well-being'. In order to work, there should be something to work on and also a certain ability to carry out the work itself and succeed. Because these two prerequisites are not self-given, we can rightly say that the primordial source of wealth is a gift. Thus, in his lists of things that constitute *eudaimonia*, Aristotle includes 'good fortune', or a gift from the gods.

24 *The Oxford English dictionary; being a corrected re-issue with an introduction, supplement, and bibliography of A new English dictionary on historical principles, founded mainly on the materials collected by the Philological society and edited by James A. H. Murray, Henry Bradley, W.A. Craigie, C. T. Onions, Oxford: At the Clarendon Press, 1933, p. 480.*

Besides the gift, the second reason that proves the theory wrong is that one should also be socially conscious. This is the recognition that the most important thing in business activity indirectly transcends the quantifiable parameters of the job. Both economics and ethics primarily seek human flourishing in their different ways. In business, what is served at all levels – the levels of production, distribution and service – are persons. Both ethics and economics are interested in the common good. Consequently, the corrective for a life of greed is not to stop business or profit-making, but rather to gain a clearer vision of what is good for oneself and for the other people. As John Paul II says:

The purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole society.²⁵

This is true, in the first place, because no business can be done in isolation or in a vacuum. All business is done for people and thus renders services and goods. The fact that business benefits the businessman at the same time as it renders services and benefits to other people is, in my view, something positive.

Human dignity has an internal as well as external manifestation. Its external manifestation is revealed in, among other things, the world of work and in the family. Thus, the deepest personal good is attained while seeking the general common good, the good of the whole, through the consideration of the well-being of other people as worthy of respect and as ends in themselves, rather than as mere instruments or sources of resources. The concerns of ethics – human flourishing as rational beings or human dignity – and that of economics – understood as the allocation of scarce resources to the community of persons – merge into one, which is the interest of the human person, who has psychic, spiritual and somatic needs. True ‘well-being’ or human flourishing consists in the satisfaction of the three to the best possible level.

The ethics of business and the professions have, therefore, much to do with the understanding of the human person as a personal being. In business and economic life, the respect of human dignity is not a more or less operative model. It is the very matrix of good relations between all the stakeholders: suppliers, managers, employees, consumers or customers, etc. Hence, no actions in business and professional activity can be said to be morally neutral, because a characteristic of human actions is that they are always moral acts. Consequently, there will always be certain norms

25 JOHN PAUL II, Encyclical Letter *Centesimus Annus* (1 May 1991), ¶ 35.

that need to be respected and observed. The observance of those norms is not something additional, something superfluous, which may or may not be done, for so long as the human person is at the centre of a business or professional relationship, doing good is part of service and, hence, is the measure of one's success as having made or not made a good deal. Similarly, infringement of the norms of proper relationships, of justice and fairness on either side, is an abuse of human dignity on the part of the infringed side.

No one disputes the fact that business exists for a purpose and, therefore, cannot be viable without making profits. Profit is its chief *raison d'être*. However, poor would be the business that had only this aim in mind. So, in a way, though business is not a welfare association, it does have a social aim. A small-scale businessman selling roasted maize on a street corner, besides thinking of the money he will earn today – if he has a conscience – thinks also of the welfare of his customers, of the kind of maize they will like, of how well roasted it should be, when to roast it so that it is not cold, how to hand it to them, and so forth. This goes to show that, besides the profit, a businessperson in normal good business transactions necessarily thinks of the welfare of others. It is also true that one can do this in either a mean or a generous way. The manner, the mode, the intention is what constitutes the internal forum of human action. For a business to survive, this external manifestation must at least be seen to exist. If it does really exist within the internal forum as well, then business gains twice without contradicting the various aspects of well-being and faring well.

The final dimension of altruism is to want to see other people succeed, as opposed to engaging in a 'zero sum game', in which it is believed that one's own gains can only come at the expense of other people's losses.²⁶ Good 'self-interest' in this sense consists in the aspiration to see customers fare well or prosper at the same time that the businessperson also prospers or fares well him/herself in a balanced and praiseworthy self-interest.

6. CONCLUSION: THE OBJECTIVE OF BUSINESS ETHICS

The end of an economy is not only survival, but also a certain amount of human well-being. In doing so, I have tried to avoid the error of supposing that an economy can be established to strictly meet the barest necessities of survival. Rationality requires that one should seek 'something more' than what is strictly indispensable. This 'something more' is important for both 'self-interest' and altruism. This is true, in the first place, because one

cannot invest (give) unless one owns something and, secondly, because generosity in giving is necessarily based on ownership and property. One way of satisfying people needs is through commerce. Thus, in order to elevate people from poverty, there have to be some people who own at least something which they can invest and, in so doing, reach out to those who have the need of specific goods. A thriving and prosperous economy arises only if there are people who are spontaneously and creatively capable of responding to the needs of others by profitably producing goods and services that serve the needs of society.

I have also tried to show that whereas economic activity refers to the satisfaction of the basic human needs, the bare minimum, it is also a normal human inclination to want to pursue goods far and above survival, because any rational person realises that she must also think of the needs of the future, the unforeseen, old age, etc., that should also be catered for. With that, I count as established that the role of business is not just making profits. It is equally service, just in the same way that the aim of human existence is not simply to eat. Yet, eating is so essential that, if one were not careful, it could appear to be the chief purpose of life. We have also established that profits in business are not only a condition for survival but are also a condition for the possibility of earning more money in order to give (invest) for the service of society and of oneself. Finally, profit alone does not suffice to attain *eudaimonia*.

Faring-well, to have 'well-being', refers to human conditions of living satisfactory for a normal, healthy and comfortable life. To be 'badly-off' is to fall short of these conditions. But, above all, for man, a spiritual being, well-being refers to his spiritual dimension. The person who finds himself surrounded by a harmonious atmosphere – not only in the body, but also in physical, social and interpersonal surroundings – is in a state of 'well-being'. On the other hand, we would not consider as being well-off someone in a physical state of deprivation, suffering from a lack of the usual physical amenities of decent living or someone in a constant state of psychological torture or anguish, even if such a person had accumulated much wealth.

The establishment of the relation between business and its values and those of ethics constitutes the study of business ethics. Thus 'business ethics' can mean either an academic field of study or concerns and activities concerning morality, business, and economic practices. Because it gathers its meaning and its value from the richness and complexity of its field, business does not have its own moral philosophy, nor should ethical theory invent its own version of business. Rather, business ethics should be conceived as the application of moral philosophy at

its theoretical and historical best.²⁷ As an academic field, its aim is to investigate the relationship between morality and business practice.²⁸ As an intellectual pursuit, business ethics does not aim at moralising nor at ethical exhortations; rather its distinctive mark is to provide rational analyses and justification of the relationship between morality and business, which may often lead to normative prescriptions.

Thus, just as the concern of business and economics is the human material well-being of people, the concern of ethics is the human person, to enlighten him or her, either as the businessperson or as the consumer, to the fact that, for a rational being, not everything that can be done is right to do. It is the role of ethics to pursue and to indicate the distinction between what can physically be done and what ought morally to be done or to be avoided. Business ethics, or whatever other name some people may wish to call it, should, in my opinion, be taught at all colleges and universities that offer ethics and business and economics courses. However, the groundwork of any such academic programme in business ethics still rests upon some essential concepts in general ethics. At whatever level it is taught, the discussants need to see clearly that business, economics and ethics have one common goal; they are all directed towards human flourishing and well-being.

27 R. DE GEORGE, 'Ethical Universals, Justice and International Business', in *Ethical Universals in International Business*, ed. F. N. Brady, Berlin: Springer-Verlag, 1996; J. W. HENNESSY, 'Moral Rules and Moral Ideals: A Useful Distinction in Business and Professional Practice', *Journal of Business Ethics* 4 1985, pp. 105-15.

28 *Id.*, p. 25.

BEYOND AGENCY THEORY: THE NATURE OF THE FIRM FROM A HUMANISTIC PERSPECTIVE

JUAN FONTRODONA

Agency theory is designed to explain the relationships that obtain in organisations, understood as principal-agent relationships, in which the principal decides on a certain course of action and the agent is responsible for carrying it out. Normally, the agent will never act exactly as the principal would like, because he has different interests and risk perceptions. Consequently, the principal will need to incur certain costs to ensure that the agent acts as required.

Agency theory originated in the works of Ross, 'The Economic Theory of Agency', published in 1973,¹ and Jensen and Meckling, 'The Theory of the Firm', published in 1976.² Its roots can be traced back to Coase's 'The Nature of the Firm'³ and subsequent developments of his ideas by Williamson.⁴

The theory has gained widespread acceptance, firstly, because the agent-principal structure is found in a wide variety of relationships, contracts and transactions between parties and, secondly, because, by making a number of assumptions, it offers a simplified and workable model for analysing reality with a certain degree of theoretical rigor.⁵

However, the assumptions on which agency theory is based have been subject to criticism. Focusing on those assumptions, De George identifies four important differences that set agency theory apart from any ethical theory.⁶ Duska states the need to develop a non-egoistic theory of the company and suggests that agency theory may be of use in formulating such a theory, thereby implying that agency theory can

1 Stephen A. ROSS, 'The Economic Theory of Agency: The Principal's Problem', *American Economic Review* 63 (1973), pp. 134-39.

2 Michael JENSEN and William MECKLING, 'The Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure', *Journal of Financial Economics* 3 (1976), pp. 305-60.

3 Ronald COASE, 'The Nature of the Firm', *Economica* 4 (1937), pp. 386-405.

4 Oliver E. WILLIAMSON, *The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm*, Englewood Cliffs, New Jersey: Prentice-Hall, 1964; *Markets and Hierarchies: Analysis and Anti-Trust Implications*, New York: Free Press, 1975.

5 J. Gregory DEES, 'Principals, Agents, and Ethics', in Norman E. BOWIE and R. Edward FREEMAN, eds., *Ethics and Agency Theory: An Introduction*, New York: Oxford University Press, 1992, p. 28.

6 Richard T. DEGEORGE, 'Agency Theory and the Ethics of Agency', in BOWIE and FREEMAN, eds., *Ethics and Agency Theory*, New York: Oxford University Press, 1992, pp. 59-72.

be based on other assumptions.⁷ Some proposals, such as those of Koford and Penno⁸ and Wright, *et al.*,⁹ have been aimed at relaxing the force of those assumptions, while others, such as those of Aoki¹⁰ and Evan and Freeman,¹¹ study the relationship of the agent to multiple principals.

This paper builds on Duska's proposal in its attempt to question the assumptions on which agency theory has been founded to date and proposes some alternative assumptions based on an interpretation of persons and companies inspired by Aristotelian philosophy. To do this, we shall first analyse the contribution that agency theory has made to the study of business administration. Then we shall analyse the four assumptions on which agency theory rests and propose some alternative points of view. We shall conclude by pointing out how the new assumptions provide a better answer to the questions that Coase asked in his attempt to explain the reasons for the existence of firms, and outline some of the challenges to be overcome in current circumstances.

1. WHY THE FIRM AND NOT THE MARKET?

In 1937, in his article 'The Nature of the Firm', Coase asked a question that had significant implications for the theoretical debate about business enterprise: Why the firm and not the market? Until then, economists had treated the firm as the smallest unit of analysis in the study of business activity; they had not dared to look inside this 'black box'. Coase's achievement was to stop taking the existence of firms for granted and to ask himself what it was about firms that made them a better means of managing production than the market.

For Coase, the distinguishing feature of the firm is that it effectively allows the actions of the entrepreneur to replace the price mechanism as coordinator of productive activities. A firm, therefore, consists of a system

7 Ronald F. DUSKA, 'Why Be a Loyal Agent? A Systemic Ethical Analysis', in BOWIE and FREEMAN, eds., *Ethics and Agency Theory*, New York: Oxford University Press, 1992, pp. 143-68.

8 Kenneth KOFORD and Mark PENNO, 'Accounting, Principal-Agent Theory, and Self-Interested Behavior', in BOWIE and FREEMAN, eds., *Ethics and Agency Theory*, New York: Oxford University Press, 1992, pp. 127-42.

9 Peter WRIGHT, Ananda MUKHERJI, and Mark J. KROLL, 'A Reexamination of Agency Theory: Assumptions, Extensions and Extrapolations', *The Journal of Socio-Economics* 30 (2001), pp. 413-29.

10 Masahiko AOKI, *The Co-Operative Game Theory of the Firm*, Oxford: Oxford University Press, 1984.

11 William M. EVAN and R. Edward FREEMAN, 'A Stakeholder Theory of the Modern Corporation: Kantian Capitalism', in Tom L. BEAUCHAMP and Norman E. BOWIE, eds., *Ethical Theory and Business*, 4th Ed., Englewood Cliffs, New Jersey: Prentice-Hall, 1993, pp. 75-84.

of relationships in which there is an entrepreneur who is in charge of managing resources.¹²

In classical economics, the economic system is coordinated by the price mechanism and, although the individual is guaranteed a role in this system – that of making forecasts and choosing among alternatives – the theory assumes that resource management depends directly on the price mechanism. Coase, however, points out that in the real world, there are many situations in which this is not the case and decisions are made for reasons other than the price mechanism. For example, an employee may switch to a different job within the company, not because there has been a change in prices, but because someone has instructed him to do so. Thus, Coase concludes, while outside the company decisions are taken in accordance with market exchanges, inside the company the market structure is replaced by the decisions of an individual, the entrepreneur, who determines what should be done at any given moment on the strength of his hierarchical superiority.¹³

This is still insufficient to explain why a hierarchical organisation should be a better means of coordinating production activities than the market. For Coase, the fundamental reason is the cost saving that can be obtained by coordinating those activities within a firm, instead of allowing market mechanisms to do the job.¹⁴ When the task of coordination is left to the market, certain costs are incurred that can be avoided by having production activities coordinated within the firm. Examples of such costs are the costs of determining the relevant prices, of negotiating different contracts for each transaction, and of establishing short-term contracts rather than long-term contracts.¹⁵

Thus, it makes sense to organise productive activities inside a firm when doing so brings a reduction in costs, that is, when the firm's operating costs are less than the transaction costs of conducting those operations in a market. Lest any doubt should remain, Coase points out, in a commentary on the influence of 'The Nature of the Firm', that the main purpose of the article is to propose that the decision rule

12 Ronald COASE, 'The Nature of the Firm'.

13 Ronald COASE, 'The Nature of the Firm'; also 'The Nature of the Firm: Meaning' and 'The Nature of the Firm: Influence', in Oliver E. WILLIAMSON and Sidney G. WINTER, eds., *The Nature of the Firm: Origins, Evolution, and Development*, New York: Oxford University Press, 1991, pp. 18–33, 48–60 and 61–74. In a conference to commemorate the fiftieth anniversary of the publication of 'The Nature of the Firm', Coase gave his thoughts on the significance ('The Nature of the Firm: Meaning') and influence ('The Nature of the Firm: Influence') of his paper. These valuable reflections complement the original text and we shall take them into account in our argument.

14 COASE, 'The Nature of the Firm: Influence'.

15 COASE, 'The Nature of the Firm'.

be to compare the costs of coordinating the activities of the factors of production inside the firm with the costs of obtaining the same results through market transactions.¹⁶

The cost reduction is largely achieved through a special type of contract, by which the parties involved undertake to abide (at the cost of a certain loss of freedom of action). The contract is formulated in general terms – in terms not so much of specific actions to be carried out, but of one party's commitment to carry out whatever actions the other party may specify at any time during the contractual relationship. The paradigmatic example – though not the only one – of this type of contract is that between an employee and his employer. The employment contract does not specify exactly what the employee must do; rather, it documents the commitment freely undertaken by the employee to do whatever his superior asks him to do at any given moment. The form of the contract affords great flexibility of action and is complemented by the hierarchical relationships established in firms.¹⁷

The three elements around which Coase's theory is constructed – hierarchy, contracts and transaction costs – appear again and again in the various theories that have continued the debate over the nature of the firm.

In response to Coase's theory, we are prompted to make the following observations:

First, in Coase's scheme, individuals continue to think exclusively in economic terms – in terms of cost reduction, in this case. Although Coase criticises the reductionism of classical economics in the way it treats the individual, denying him any decision criterion other than the price mechanism, his own proposal is no more than a variation on the same theme. The decision maker – the entrepreneur – continues to adopt a maximising behaviour, in pursuit of a distribution of resources that offers the greatest possible advantage to all the agents.¹⁸ Coase introduces additional complexity into the decision-making process by distinguishing between the people who continue to make decisions inside the firm and those who give up that option in exchange for a contractual relationship that guarantees them a degree of stability; but he does not actually change the model. In addition, as soon as we allow a plurality of agents, we have to accept the possibility of conflicting individual goals, which represents

16 COASE, 'The Nature of the Firm: Influence'.

17 Miguel Alfonso MARTÍNEZ-ECHEVARRÍA, *Hacia una nueva teoría de la empresa*, Cuadernos de Empresa y Humanismo, No. 79 (Pamplona: Empresa y Humanismo, 2000), p. 20.

18 MARTÍNEZ-ECHEVARRÍA, *Hacia una nueva teoría de la empresa*, p. 11.

an added problem when it comes to explaining how it is possible to find a situation of equilibrium among them all.¹⁹

Second, in Coase's proposal, the firm is seen as an instrument in the service of efficiency. To a certain extent, it is an imposition due to the ultimate objective of reducing costs, but it does not have any value in itself. In this view, firms are still considered as little more than indispensable instruments for maintaining market rationality, although the ideal situation would be one in which transaction costs were reduced to such a level that there would be no need for firms and all transactions could be carried out directly through the market.²⁰

Lastly, although Coase justifies the existence of the firm in terms of the cost reduction it enables, he does not say what causes this reduction. He takes for granted that, by the mere fact of existing, the firm reduces transaction costs. At the same time, however, he admits that there are situations in which, instead of decreasing, costs actually increase. For example, when a company is growing, it may incur other costs, such as not making the best use of resources or forfeiting the advantages that a smaller firm may have and, consequently, may find itself on a path of decreasing returns. In any case, the thing that remains to be explained is how the costs are reduced. In Coase's defence, it has to be said that years later he recognised this shortcoming and admitted that in 'The Nature of the Firm' he had only half-completed the job and that what remained to be studied was why transaction costs were lower in some firms than in others; in other words, not to take for granted that the costs are reduced, but to explain how they are reduced.

2. AGENCY RELATIONSHIPS AND AGENCY THEORY

'The Nature of the Firm' went unnoticed for decades, until in the 1970s and 1980s it once again became a point of reference in the academic world. In the 1970s, articles by Ross²¹ and Jensen and Meckling²² marked the beginnings of what came to be known as agency theory, with its roots in the work of Coase.²³

Jensen and Meckling define the theory on the basis of what they call *agency relationships*, which they understand as contracts – not necessarily explicit or formal contracts – under which one or more persons (the

19 JENSEN and MECKLING, 'The Theory of the Firm'.

20 MARTÍNEZ-ECHEVARRÍA, *Hacia una nueva teoría de la empresa*, p. 32.

21 ROSS, 'The Economic Theory of Agency'.

22 JENSEN and MECKLING, 'The Theory of the Firm'.

23 NEIL A. SHANKMAN, 'Reframing the Debate between Agency and Stakeholder Theories of the Firm', *Journal of Business Ethics* 19 (1999), p. 321.

principals) engage another person (the *agent*) to perform some service on their behalf that involves delegating some decision-making authority to the agent.²⁴ The agent thus acquires certain obligations with respect to the principal by virtue of the economic relationship established between them. The mechanism for articulating this relationship takes the form of a contract between the principal and the agent. Accordingly, the firm is understood as a nexus of contracts between principals and agents.²⁵

An agency relationship arises whenever there are two or more individuals who have differing goals and interests and one of them holds a position of dominance over the others, so that the others are obliged to act in such a way as to achieve the objectives of the person who is in the dominant position. The paradigmatic case of an agency relationship in firms is the relationship between shareholders and managers. The managers are agents of the shareholders, and the shareholders assume that the principle guiding the managers' actions will be that of implementing whatever policies increase the value of the firm.

Agency theory assumes as a matter of principle that individuals have an opportunistic attitude and that their actions are aimed at maximising their own interests.²⁶ If that is so, there is every reason to suspect that the agent will not always act in accordance with the best interests of the principal. If conflicts arise between the goals of the different parties – and if, furthermore, they have different perceptions of risk – the problem facing the principal will be to decide how to establish contracts that maximise his expected utility, given that the agent, for his part, will always be tempted to maximise his own utility.

Agency theory thus has to resolve two problems. On the one hand, the so-called *agency problem*, which arises when the desires and goals of the principal and the agent come into conflict, and when it is difficult or costly for the principal to monitor the agent's actions. On the other hand, the problem of *risk perception*, which arises when the principal and the agent have different perceptions of risk and, therefore, propose different plans of action.²⁷ Because the principal does not have complete information about the agent's abilities and intentions, it is possible that the agent will deceive him about the amount of effort he puts into

24 JENSEN and MECKLING, 'The Theory of the Firm'.

25 SHANKMAN, 'Reframing the Debate between Agency and Stakeholder Theories of the Firm'; Ian MAITLAND, 'The Morality of the Corporation: An Empirical or Normative Disagreement?', *Business Ethics Quarterly* 4 (1994), p. 449.

26 Oyvind BOHREN, 'The Agent's Ethics in the Principal-Agent Model', *Journal of Business Ethics* 17 (1998), p. 746.

27 Kathleen M. EISENHARDT, 'Agency Theory: An Assessment and Review', *Academy of Management Review* 14 (1989), p. 58.

attaining the objectives specified in the contract (*moral hazard*) or take decisions that are inconsistent with the attainment of those objectives (*adverse selection*).

The divergence between the interests of the principal and those of the agent generates certain unavoidable costs. These *agency costs* are, on the one hand, the residual costs caused by the divergence, which results in the failure to maximise the principal's wealth and, on the other, the costs incurred in the attempt to reduce the divergence, whether incurred by the principal – through measures to control the agent's behaviour or through incentives that make it attractive for the agent to bring his actions into line with the shareholder's interests – or incurred by the agent in the effort to demonstrate his commitment to the principal's goals.

The idea behind agency theory is to select whatever mechanisms will regulate the relationship between the agent and the principal in such a way as to ensure an efficient alignment of the two parties' interests. In practice, that means ensuring that the agent serves the principal's interests by reducing agency costs to a minimum.²⁸ These mechanisms, which take the form of contracts (which need not be written), are based on a number of assumptions about people (self-interest, limited rationality, risk aversion), organisations (goal conflict between organisational members) and information (non-homogenous information, which can be acquired at a certain cost).

Agency theory starts from a series of anthropological assumptions that need to be made explicit. The individual is construed as being risk adverse, concerned for his own interests, determined to maximise his own utility, and willing to engage in immoral conduct if such conduct is strategically convenient. From the ethical point of view, the agent does not act morally in reference to any moral principles or imperatives, but because the economic incentive to act morally is greater than the utility of acting immorally.²⁹ Ethics is seen as a cheap way of overcoming agency costs and other flaws of the market. In this context, ethics becomes a strategic tool that is used when it serves a purpose, but has no value in its own right.

Agency theory has met with reactions both of approval, on account of the realistic way it depicts the collaboration efforts of the individuals

28 SHANKMAN, 'Reframing the Debate between Agency and Stakeholder Theories of the Firm', p. 321.

29 BOHREN, 'The Agent's Ethics in the Principal-Agent Model'.

who make up the company,³⁰ and disapproval, on account of its underlying assumptions.³¹ Its greatest contribution, like that of Coase, is to stop considering the firm as a simple agent and inquire into the relationships that are created between the agents of which the firm is comprised. Agency theory adds the further observation that these relationships are not conflict-free, and so it is a matter of finding how to resolve the differences.

Although it is important to recognise the positive contributions of agency theory, such as the importance of incentives, the value of information or the perception of risk,³² we also need to ask ourselves to what extent the assumptions on which it is based are necessary and consistent. To put it another way, even though agency relationships are an undeniable fact, we do not have to understand them exclusively from the point of view of the assumptions that agency theory has accepted until now. The purpose of this paper is to question those assumptions and to propose that agency relationships be studied from the viewpoint of different assumptions, which we shall draw from a view of man and society based on an Aristotelian conception, rather than the utilitarian view that has been accepted thus far.

It is fair to say that, until now, agency theory has worked on the following four assumptions:

1. The shareholder owns the firm.
2. The shareholder and the other members of the firm are guided by the criterion of maximising their utility.
3. The firm is a nexus of contractual relationships.
4. The purpose of the firm is to maximise value for the shareholder.

3. WHO OWNS THE FIRM?

The most common form of agency relationship is that between the managers and the shareholders of a firm, in which the managers are seen as agents of the shareholders, who act as principals seeking a return on their investment.³³ The normative implication of this framework is that

30 EISENHARDT, 'Agent Theory'.

31 Michael J. BRENNAN, 'Incentives, Rationality and Society', *Journal of Applied Corporate Finance* 7 (1994), pp. 31–39; Charles PERROW, *Complex Organizations: A Critical Essay*, 3rd Ed., New York: Random House, 1986.

32 SHANKMAN, 'Reframing the Debate between Agency and Stakeholder Theories of the Firm', p. 332.

33 Dennis P. QUINN and Thomas M. JONES, 'An Agent Morality View of Business Policy', *Academy of Management Review* 20 (1995), pp. 22–42.

the managers, as agents, must act in such a way as to maximise the net present value of the firm, since that is assumed to be the shareholders' goal as owners of the firm.³⁴ In this scheme, it is assumed, first, that the shareholder owns the firm and, second, that the shareholder's interest is to maximise the value of the firm. In this section, we shall consider the first of these two assumptions, leaving the second for a later section.

The assumption that the shareholder owns the company is not justified, not even within the conceptual framework of agency theory itself. From the point of view of the firm as a 'nexus of contracts', it does not make sense to say that a particular person 'owns' the firm. The most that we can say is that nexuses are formed between the owners of the various factors that together make up the company; but there is no reason to equate 'owning the capital' with 'owning the firm'.³⁵

The historical development of the modern business enterprise and the separation of capital and management allow us to make a clear distinction between the relationship with the company that derives from a contribution of capital, and the relationship with the firm that derives from coordinating the firm's activities and making executive decisions.³⁶ There may be people in the company who are both shareholders and managers; there may be shareholders who take on a commitment to the company in terms of management responsibility; and there may be managers or employees who become shareholders. There may be some investors who take an active part in the running of the business, but there will be many more whose main concern is to ensure that there is a sufficiently efficient capital market in which they can trade their shares.³⁷ It is questionable whether these 'non-committed shareholders' really 'own' the firm. It has been argued that a person who contributes only money, effectively acting simply as a lender, seeking no more than a return on his monetary investment, cannot become a partner in the enterprise.³⁸

To the extent that the investor assumes a risk – heightened, if you will, by the fact that what happens to his money depends more on the decisions of management than on those of the investor himself – it is only fair that steps be taken to protect his interests. It is equally true, however, that the other parties – the managers and the employees – also

34 SHANKMAN, 'Reframing the Debate between Agency and Stakeholder Theories of the Firm', p. 322.

35 Eugene F. FAMA, 'Agency Problems and the Theory of the Firm', *Journal of Political Economy* 88 (1980), pp. 288–307.

36 MAITLAND, 'The Morality of the Corporation', p. 449.

37 FAMA, 'Agency Problems and the Theory of the Firm'.

38 Álvaro D'ORS, 'Reflexiones civilistas sobre la reforma de la empresa', *La Ley*, Vol. B (Buenos Aires, 16 April 1979), pp. 841–45.

assume a risk. It is sometimes argued that the capitalist is the one who assumes the greatest risk of all and, from that premise, it is concluded that all of the company's activity should be oriented towards satisfying the capitalist's legitimate interests. There are, however, arguments to be brought against this line of reasoning. The shareholders can reduce their risk by diversifying their investments among various different firms, whereas the employees cannot have several different jobs with different employers (and if they do, it tends not to be with a view to diversifying risk, but in order to make ends meet). Furthermore, the shareholders have capital markets that allow them to change their investments easily, whereas the employees have no such easy way to change their jobs. The argument that the shareholders are the ones who assume the greatest risk is, therefore, unfounded. Consequently, neither is there any justification for preferential treatment when it comes to deciding what the firm's goals should be.³⁹

Capital is not an anonymous entity; it is always related to a person – the capitalist. To that extent, we can say that capital is subject to certain moral considerations. However, the intrinsic – ontological – link between the capitalist and capital is weaker than the link between managerial and operational labour and the people who provide that labour.⁴⁰ People *own* capital, whereas they *do* work. Consequently, work is internally linked to the people who perform it, whereas capital is only externally linked to the people who possess it.

There is another, still more radical objection to the assumption that the shareholder owns the firm. Only things, or animal and plants, have owners. People (with the exception of slaves) do not have owners. Nor can we say that human organisations or institutions have owners: a family, club or political party has members; and a local community has residents or citizens, but not owners. To say that a firm has owners is to remain trapped in a mechanistic view that reduces the firm to a sequence of processes, or a narrowly economic view that reduces the company to its physical and financial assets. Once we accept that the firm is not just a thing, we can no longer talk of the company as having an owner without preserving a remnant of slavery within the capitalist system.⁴¹

To summarise, the fact that there are agency relationships does not necessarily mean that there is just one principal on whom all the rest

39 Rogene A. BUCHHOLZ and Sandra B. ROSENTHAL, *Business Ethics: The Pragmatic Path beyond Principles to Process*, Upper Saddle River, New Jersey: Prentice-Hall, 1998, p. 169.

40 Carlos LLANO CIFUENTES, *Dilemas éticos de la empresa contemporánea*, México, Fondo de Cultura Económica, 1998.

41 D'ORS, 'Reflexiones civilistas sobre la reforma de la empresa'.

depend. Rather, we should talk about multiple relationships between the owners of the various factors that make up the company. In this sense, *stakeholder theory*, by taking into account the different agents (stakeholders) who together make up the firm, offers a broader view of the firm than one that focuses principally on the shareholders.⁴² Capital is not the principal factor in the firm, neither in order of priority with respect to other elements of the firm nor in terms of its ontological link to the person who owns it.⁴³

The firm can be understood as a conjunction of three factors: capital, management (managerial labour) and operation (operative labour).⁴⁴ Each of these factors contributes its unique capabilities. Specifically, the owner of capital contributes money to finance the purchase of the technologies needed for production and to cover the firm's other financing needs in return for a monetary gain that will depend upon the amount contributed in each case.

As Drucker has said, a firm's chief asset is its human capital:

The means of production is knowledge, which is owned by knowledge workers and is highly portable . . . Knowledge workers provide 'capital' just as much as does the provider of money. The two are dependent on each other. This makes the knowledge worker an equal – an associate or a partner.⁴⁵

Given this situation, it seems important to find a way of talking about the firm other than in terms of ownership. This same thought was voiced recently by Handy:

My guess is that we shall, eventually, have to abandon the myth that shareholders own a business. They will be more like mortgage holders, entitled to a rent for their money, in this case a variable rent depending on the profits, but with no rights to sell the company or to close it down, unless it defaults. The shareholders contribute their money. Others contribute time, skills, ideas and experience. These, too, are entitled to a rent, variously fixed. No one owns anything. The very idea that a collection of people turning ideas into products is a piece of property that can be owned by someone else will come to seem absurd.⁴⁶

42 SHANKMAN, 'Reframing the Debate between Agency and Stakeholder Theories of the Firm'.

43 LLANO, *Dilemas éticos de la empresa contemporánea*, p. 41.

44 LLANO, *Dilemas éticos de la empresa contemporánea*.

45 Peter DRUCKER, 'The Next Society: A Survey of the Near Future', *The Economist*, 3 November 2001, p. 16.

46 Charles HANDY, *The Elephant and the Flea: Looking Backward to the Future*, London: Hutchinson, 2001, p. 86.

4. IS THERE ANY OTHER INTEREST APART FROM ECONOMIC INTEREST?

The methodological individualism of neoclassical economics adopts the anthropological assumption that individuals act out of a desire to maximise their own interest. In relation to the firm, this interest is understood in economic terms. We thus find a double reduction: first, from interest to self-interest, and then from self-interest to economic self-interest.

To the extent that it is the subject who decides, all of his decisions serve an interest. But, the fact that they serve an interest does not mean that the only interest to be considered is self-interest. If other people's interests are not taken into account when making a decision, the decision will be based on an incomplete set of criteria and the conclusions obtained will probably be inconsistent.⁴⁷ Some theories seem to suggest that the only way the subject can take the interests of other people into account in his decisions is to adopt an attitude of 'neutrality', such that the individual makes his decision from a 'generic' and 'impartial' position, unconditioned by personal circumstances. It is difficult to see how, in practice, anyone could make decisions without giving any weight to his own personal characteristics and circumstances. What is needed is not decision-making from a position of 'impartiality', but from the commitment to use all the necessary criteria and weight them fairly. Therefore, what we are saying here is not that decision-making must be disinterested, but that the interest involved does not always have to be self-interest.

The expression 'enlightened self-interest' has sometimes been used as a way of getting around individualistic self-interest. It needs to be understood correctly, however. If it is understood in the sense of having the *prudence* to take other people's interests into account in one's own decision-making, then the expression is acceptable. But, if it is understood in the sense of having the *cunning* to use other people's interests as means of advancing one's own interests, then it does not represent any improvement over the methodological individualism that we are calling into question in this paper.

At the same time, the theory of motivation has, in different ways, come up with counter-proposals to the agents' supposed exclusively economic interest. If we understand motivation as the attraction people feel towards certain goods – or the need to acquire those goods – we

47 Juan Antonio PÉREZ LÓPEZ, *Teoría de la acción humana en las organizaciones: la acción personal*, Madrid: Rialp, 1991.

cannot help but conclude that we human beings are driven by motives other than money. There has been a process of evolution in the various theories of motivation that have been put forward, with regard to both the content of the motivation and the processes that activate behaviour. On the one hand, this evolution has enriched the content of motivation by adding more and more (mostly non-economic) new elements; on the other, it has complicated decision-making processes by including criteria other than self-interest.⁴⁸

If it were simply a matter of maximising economic profit among the various parties concerned, the problem would be limited to one of complexity in the calculation. That, however, is not all there is to it. The motives are not exclusively economic and, because they are of different orders, maximisation is not a feasible criterion for decision-making.

An alternative to maximisation as a guideline for decision-making would be the following. First, take decisions that guarantee a certain minimum degree of satisfaction on all the different motivational levels (economic, sociological, ethical). Second, once this minimum has been guaranteed, the managers may decide, among the different alternatives available to them, whether they prefer those that, while guaranteeing an ethical minimum, will foster growth on the economic plane, or those that, while guaranteeing an economic minimum, will foster growth on the ethical plane. The choice made in each case will reflect the ethical quality of the person choosing and of the organisation, given that it is better to pursue ethical excellence than to pursue economic excellence. Very often, when people talk about business ethics, they understand ethics as something imposed on the firm from outside, limiting the range of alternatives to ensure that certain minima are met, so that they can then concentrate on making as much money as possible. Here, in contrast, we propose that firms put as much effort into developing the ethical nature of the organisation, while guaranteeing the economic viability of the firm, as they usually put into earning as much money as possible within the bounds of legality.

The variety of motives for which people join organisations poses an additional problem when it comes to managing a business, as it makes it necessary to bring the different private goals into harmony within the overall unity of the organisation. As Barnard points out in *The Functions of the Executive*, the efficiency of an organisation depends on maintaining

48 José I. VÉLAZ RIVAS, *Motivos y motivación en la empresa*, Madrid: Díaz de Santos, 1996.

its members' willingness to work together, which depends in turn on the degree of achievement of each individual's private goals.⁴⁹

In basing itself on the principle that all individuals act out of self-interest and in looking for solutions in the form of incentive or control systems that will persuade the agent to respond as required, agency theory cannot avoid succumbing to a certain logical inconsistency. If we assume that human beings always pursue their own selfish interests, there is no reason to suppose that the agents will not be perfectly willing to abandon their commitment if it is in their interest to do so. This would mean that the firm is built on commitments that can never be other than provisional. We would end up, therefore, with a 'double standard', with principals who are motivated by self-interest, but, at the same time, demand loyalty from their agents,⁵⁰ and an 'economy of suspicion', in which ethics is seen as a necessary cost to ensure a loyalty that will continually be called into question.

The solution commonly adopted is to provide incentives for managers and employees that align their interests with those of the shareholders. Apart from the secondary effects that such policies may have, which become apparent when the economy starts to flag (just think of the controversy over stock options), we need to question whether this is really what is best for the firm or whether it does not instead lead to an impoverishment of business activity. Moreover, economic incentives tend to foster not long-term patterns of conduct, but short-term, opportunistic behaviour. Yet, the idea of stable, long-term relationships was precisely one of the arguments used to justify the existence of firms in the market. Therefore, we might argue that resorting to economic incentives runs contrary to the long-term survival of the firm as such, as it ends up generating higher costs than the market.

Thus, the agents who make up the firm have relationships with one another that cannot be reduced to economic self-interest. What is more, it would seem that these non-economic interests are precisely the ones that work in favour of the long-term survival of the firm. The corollary, with respect to decision-making, is that it is not so much a matter of maximising profits as of ensuring that each of the participants obtains the minimum satisfactions that sustain his willingness to participate, and of including other people's interests in one's own decisions. With respect to the organisation, it means having to find a point of reference that will

49 Chester I. BARNARD, *The Functions of the Executive*, Cambridge, Massachusetts: Harvard University Press, 1938; 30th Anniversary Ed., 1968.

50 DUSKA, 'Why Be a Loyal Agent?'

guarantee the unity of the organisation despite the plurality of private interests.

5. IS THE FIRM ANYTHING MORE THAN A NEXUS OF RELATIONSHIPS?

According to agency theory, the firm is a nexus of relationships between the different agents. In itself, it is no more than a legal fiction that functions as a point of reference for a complex process aimed at maintaining an equilibrium between the conflicting goals of the individuals concerned.⁵¹ However, the firm does not necessarily have to be understood that way; indeed, it can be argued that this way of understanding the firm fails to comprehend fully the social nature of the human person.

A company can be described from different points of view. First, it can be understood in terms of the things it produces and thus, also, of the revenues it obtains from the sale of its products or services. These are, to a large extent, the aspects that determine the idea that people outside the firm have of the firm: the profit it has made, the brands it sells, the advertisements it issues. We can change focus and understand the company from the point of view of the activities that are carried out in the company in order to produce and sell the products and services. Or, going one step further, we can focus not so much on the activities that the people in the firm carry out as on the people who carry out the activities.⁵²

Although this third way of looking at the firm does not deny the existence of the relationships that are established among the individuals, it brings about a small but significant shift in emphasis: by placing the emphasis not on the relationships, but on the nodes of the relationships, it highlights the fact that people are important in their own right and should not be seen as merely playing a role in the company.

When the emphasis is on relationships, people tend to be understood in terms of the function they perform in their job and the circumstances surrounding their presence in the firm. By contrast, when the emphasis is on the nodes of the relationships, people are accorded a value in themselves that cannot be reduced to their functional value or their condition of being members of the organisation. Thus, the firm is understood as 'a community of persons, in which the condition of being a person prevails over any other condition, including the condition that derives from their

51 JENSEN and MECKLING, 'The Theory of the Firm'.

52 LLANO, *Dilemas éticos de la empresa contemporánea*.

belonging to the community that we call a firm'.⁵³ The person is not reduced to what he does for the firm, but has an intrinsic worth in his own right, a goodness, which is why we can say that the human person has a dignity that must be respected.

Mechanistic views of the firm devalue people by considering them merely as parts of the whole. Organicistic models, on the other hand, accept that the firm as a whole is greater than the sum of its parts. In other words, it gives rise to an entity that is greater (and so has its own distinctive character) than the fact that a group of people unites its interests and actions to serve a common goal. However, just as in an organism each part derives its purpose from the whole, the organicistic view of the firm ends up diluting the value of the members within the organisation as a whole. Although the organicistic view of the firm is superior to the mechanistic view in that it accounts for the existence of the members of the organisation and the value they add to it, it may turn out to be even less acceptable, in that it may foster a manipulative environment in which, under the cover of acknowledging the identity of each member, the value of the individual is effectively subordinated to the satisfactory functioning of the whole. Organicistic models are not a valid alternative to mechanistic models.⁵⁴

The anthropological model that we propose here coincides with organicistic models in highlighting the fact that organisations are more than the sum of their parts. Unlike organicist models, however, it stresses the intrinsic and irreducible value of the persons who make up the organisation. From this perspective, the firm is understood as a community of persons, that is, as a plurality of persons united by a common goal of a moral rather than a material nature.

Accepting an interpretation of the organisation in terms of relationships implies somehow subjecting the firm to the logic of the market. In contrast, when we put the emphasis on the persons who maintain those relationships, we are not denying that the relationships exist; on the contrary, we are saying that the ultimate point of reference for those relationships has to be the persons, who, because of their dignity, have rights that must be respected. Any conflicts of interest that arise will, therefore, have to be resolved not only through a process of negotiation – which would be how the market would deal with them – but by acknowledging, first and foremost, that the rights of all the interested parties must be respected.

53 LLANO, *Dilemas éticos de la empresa contemporánea*, p. 54.

54 Peter KOSLOWSKI, 'Mechanistische und organistische Analogien in der Wirtschaftswissenschaft – eine verfehlt Alternative', *Kiklos* 36 (1983), pp. 308–12.

6. WHAT IS THE PURPOSE OF THE FIRM?

The fourth and final assumption of agency theory is the logical conclusion of the previous three. If the agents are committed to achieving the goal set by the principal, whose sole interest in the company – of which he is held to be the owner – is economic, it follows that the purpose of the company is to maximise the shareholder's wealth. If we accept, however, that the shareholder does not own the company, then he is not the only principal whose interests must be taken into account. Furthermore, if the interests of the different agents go beyond the purely economic level, then it is not a matter of optimising the economic utility of all those involved.

If a company does things right – in the sense of producing the things that people want – and does it efficiently – so that people are able to acquire them at a better price – and has a well trained workforce – which makes it possible to maintain such a level of efficiency – then it is only natural that the company should have satisfactory sales and make a profit.⁵⁵ But, the fact that the process ends with the company earning a profit does not mean that profit is the end for which the company exists. Companies need to make a profit, because without it they would not be able to stay in business in the long run; but it is also true to say that humans need to eat in order to live, and yet nobody would suggest that man's sole purpose in life is to eat.

Profit is a result of doing things right, but only a result. Similarly, when we do the things that we enjoy doing (or that we have to do), or when we satisfy a need that we have, we get a feeling of pleasure. But, that does not mean that human happiness lies in the pursuit of pleasure; rather, that it consists in carrying out certain tasks and obtaining certain goods that, as a result, afford us a feeling of pleasure.

Just as the direct pursuit of pleasure may end up justifying the way pleasure is obtained, the direct pursuit of profit for profit's sake may end up justifying whatever means are used to obtain that profit. Although it may be argued that profit is obtained as a result of doing things right, it is also true that it may be obtained by doing what is not right (by selling harmful products, by giving way to corruption, by engaging in fraud or deception). Therefore, a company's income statement does not necessarily reflect the company's ethical excellence. Hence, the argument that justifies the company's ethics in terms of the impact it may have on the income statement is unacceptable from the ethical point of view.

55 BUCHHOLZ and ROSENTHAL, *Business Ethics*, p. 169.

Rather than talking about the purpose of the firm, it seems more appropriate to speak of multiple purposes, many of which are non-economic. Thus, we can say that, among others, the purposes of the firm are: to produce goods and services that contribute to the improvement of society; to provide employees with an environment in which they can develop both as persons and as professionals; to create wealth and distribute it fairly; to pay a fair dividend to shareholders; to develop new products and technologies; to act with respect towards the environment; to obey the just laws of the countries in which they operate; and to help to improve the social environment through other activities that are not specifically part of the firm's business.⁵⁶

The business schools and universities in which managers-to-be receive their training usually base their teaching on the assumption that the purpose of the firm is to maximise shareholder wealth. Financial and accounting theories are heavily influenced by arguments deriving from agency theory, so that students end up being taught that the best way to keep employees and managers in line with the company's goals is to create incentive systems, and that acting honestly is not a matter of moral excellence but of the dynamics of the market itself.⁵⁷

If managing companies were simply a matter of learning to use the best means to achieve certain goals, it would be sufficient to teach ever more sophisticated techniques of measurement. However, as managing companies is above all a matter of choosing goals, a capacity for observation is more important than measurement instruments. Therefore, it is a matter not only of teaching techniques, but also, and above all, of developing moral skills and virtues. In other words, the analytical skills provided by the empirical sciences need to be complemented with a humanistic education.

This is not to say that companies should be managed by humanists or that business education should be the exclusive preserve of schools of humanities. Essentially, it is a matter of ensuring that business executives receive a sound humanistic grounding and that universities put some effort into formulating new theories that build on these new anthropological assumptions.⁵⁸

Although the discourse of economic logic tries to present itself as axiologically neutral, the fact is that it has a clear normative intent,

56 BUCHHOLZ and ROSENTHAL, *Business Ethics*, p. 168; Domènec MELÉ, 'La actuación social de la empresa', in Alfredo PASTOR BODMER, Juan Antonio PÉREZ LÓPEZ, and Domènec MELÉ, *La aportación de la empresa a la sociedad*, Barcelona: Folio, 1997.

57 BOHREN, 'The Agent's Ethics in the Principal-Agent Model', p. 751.

58 Carlos LLANO CIFUENTES, *El postmodernismo en la empresa*, México: McGraw-Hill, 1994.

namely: any action that contributes to the maximisation of profit is ethical. Indeed, the normative intent in this case is even more pronounced than in other approaches, since in this case – given the decision algorithm – only one of the possible alternatives is accepted as correct. What sets this discourse apart from others is not its apparently ‘non-normative’ nature, but the instrumental role it assigns to ethics: ethics, in this model, is understood as a function – or tool – of another criterion, namely the maximisation of economic utility, in contrast to other models that give ethics an intrinsic and, therefore, non-instrumental value.

The triumph of the financial paradigm, in which excellence is equated with efficiency in gaining exclusive possession of material goods, has made virtue the handmaiden of profit. Yet, this triumph may be considered a Pyrrhic victory, because if virtue disappears from society, material poverty will give way to moral ignorance. And, as in the tale of King Midas, unlimited access to material wealth will eventually become an obstacle to achieving what is in the long run more valuable and more necessary.⁵⁹ The emphasis on ‘creating value for the shareholder’ implies a ‘short-term’ outlook, which leads firms, on occasion, to sacrifice a long-term, stable and enduring strategy.⁶⁰

The firm is a social organisation, in which individuals demonstrate a willingness to join forces in the pursuit of a common goal that does not negate the private goals of the individuals themselves, which explain why they join the organisation in the first place. The common goal is what unites the organisation. Adopting a distinction made by Pérez López,⁶¹ we can say that this goal has a dual dimension: internal and external.

The external mission of the firm, we can say, is to efficiently produce goods and services that contribute to the well-being of society. If we agree that the firm’s customers and end consumers must also be understood not only in terms of the relationship that binds them to the firm, but also as subjects with a dignity of their own that must be respected, then we are forced to the conclusion that the firm cannot offer just any kind of good or service, but has the duty to offer goods and services that meet consumers’ real needs and that protect – or at least do not jeopardise – human dignity. Also, through its operations, the firm adds value to economic activity; consequently, part of its mission is not only to create value, but also to distribute it fairly among the various parties involved.

59 John DOBSON, *Finance Ethics: The Rationality of Virtue*, Lanham, Maryland: Rowman & Littlefield, 1997, pp. 147–49.

60 Allan A. KENNEDY, *The End of Shareholder Value: Corporations at the Crossroads*, Cambridge, Massachusetts: Perseus, 2000.

61 Juan Antonio PÉREZ LÓPEZ, *Fundamentos de la dirección de empresas*, Madrid: Rialp, 1995.

At the same time, in order to carry out its activity, the firm draws on the various abilities and skills – not only technical skills, but also moral habits or virtues – of the people who make up the company, who develop those abilities and skills as part of their activity. This dimension of the firm – which we could regard as its internal mission – sometimes goes unnoticed, and yet it can help us to understand that companies differ from one another in the way they combine their activities. Each firm tries to create a range of specific and distinctive competencies that are hard to imitate. These competencies are what give the firm its competitive advantage, which is a source of value. Thus, we can say that the firm is the pursuit of a hard-to-imitate singularity in the service of others, or what the Greeks called excellence – an excellence which resides first and foremost in persons, secondly in the organisation, and lastly in the product.⁶²

Viewed in this perspective, the firm emerges as an institution that provides a favourable environment for individuals to better themselves, both materially and morally, through a reciprocal relationship: ‘Individual virtue – by minimizing agency costs – supports the economic role of the firm, while the structure of the firm itself as a nurturing community encourages individual virtue’.⁶³

7. CONCLUSION

The firm can be understood as a body of agents who, without renouncing their personal interests, agree to coordinate their activities to achieve a common goal. However, the assumptions on which agency theory has been based until now are not necessarily the only ones we can use to broaden and deepen this approach. In the previous sections, we have analysed the reasons behind these assumptions and their possible shortcomings, and we have put forward some alternative assumptions that lay the groundwork for a very different conception of the firm.

In fact, we have arrived at a very different conclusion from Coase’s line of reasoning. We said that Coase justified the existence of the firm in terms of a reduction of costs with respect to the market, although – as Coase himself recognised – exactly what made this cost saving possible remained unclear. Having subjected to criticism the assumptions on which agency theory bases its arguments, we came to a conclusion that provides a different answer to the initial question: why the firm and not the market? It also accounts for the cost saving that Coase was unable

62 MARTÍNEZ-ECHEVARRÍA, *Hacia una nueva teoría de la empresa*, pp. 65–66.

63 DOBSON, *Finance Ethics*, p. 148.

to explain: firms exist, not because of any cost reduction, but because of competencies, which are not something that is found in the market, but are the fruit of the combined efforts of the individuals who make up the organisation in the pursuit of a common goal. The idea of the firm as a nucleus of competencies goes beyond the vision of methodological individualism, because the firm, understood in this way, is not the product of a simple aggregation of individual skills, but of a shared culture, of the pursuit of a common goal.⁶⁴

The way business has evolved in the new economy reflects Coase's ideas to some extent. If there is one thing about the new technologies that everyone agrees is an advantage, it is their ability to reduce transaction costs. Indeed, one effect that has been observed is that firms are increasingly opting to transfer operations to external providers and thus manage those operations in accordance with the dynamics of the market, rather than of the firm. Coase's ideal of a world of transactions in which there is no need for firms would seem to be closer than ever today, to the point that it has even been suggested that, eventually, firms' only distinctive competency will be their ability to coordinate the activities that they have already subcontracted in the market.⁶⁵

Clearly, there is no reason that firms should continue to exist in exactly the same form as they have until now. But, in anticipation of possible changes in the way firms are organised, it is important to ensure, first, that the new forms of organisation do not give excessive priority to relationships to the detriment of the value of the person; second, that social capital is not impoverished by the changes⁶⁶ and people continue to have a community environment in which to develop their abilities; and lastly, that the logic of the market does not end up taking over the sphere of human relations.

That can be ensured if – independently of the specific forms that firms take on – people support a fully rounded view of the nature of the firm, and the assumptions that until now have been uncritically accepted are replaced by others that more accurately fit the reality of the firm as a community of persons in the service of society.

64 MARTÍNEZ-ECHEVARRÍA, *Hacia una nueva teoría de la empresa*, pp. 68–69.

65 Mohanbir SAWHNEY and Deval PARIKH, 'Where Value Lives in a Networked World', *Harvard Business Review* 79 (2001), pp. 79–86.

66 Robert D. PUTMAN, *Bowling Alone: The Collapse and Revival of American Community*, New York: Simon & Schuster, 2000.

A COMPARATIVE ANALYSIS OF THE PRINCIPLE OF COMPETITION IN BUSINESS MANAGEMENT AND THE PRINCIPLE OF LOVE IN CHRISTIAN ETHICS IN AFRICA

EUNICE KARANJA KAMAARA

1. INTRODUCTION

Generally, in many traditional societies, 'business management' refers to all work, that is, any human activity that is geared towards provision of goods and services for meeting human needs. By the end of the Fifteenth Century, however, business management had come to mean not just any activity, but only that activity which has economic ends. More specifically, with the popularisation of the money economy, it came to mean the process of producing or buying and selling goods and services in exchange for money. By the end of the twentieth century, business management had come to mean 'the planned practical activities of a commercial enterprise which produces goods and provides services to customers, for a maximum return, at minimal cost.'¹ In simple words, business management is about making profit at minimal cost.

'Morality' may be defined as a set of values designating what is right or wrong behaviour in human activity. Since business management is human activity, we can speak of 'business morality', where a person engaging in business is required to adhere to certain values to achieve justice, honour, and integrity in his/her work. Christian morality in Africa refers to the application of Christian moral values in the context of the African socio-cultural situation.

In our contemporary world, where business management is about achieving maximum benefit at minimal cost, it may be considered extremely difficult, if not entirely impossible, to apply Christian ethics to business. Hence, it is considered difficult for one to be a Christian and a successful business manager at the same time. Therefore, some people will refrain from business enterprises, while others will find no relationship between their commercial activity and their Christian faith.

1 Peter John OPIO, 'Towards an Ethics of Business in Africa: Integrity and Competitiveness', in Michel LEJEUNE and Philipp W. ROSEMAN, eds., *Business Ethics in the African Context Today*, Nkozi: Uganda Martyrs University Press; Kampala: Konrad Adenauer Foundation, 1996, p. 96.

The intent of this paper is to illustrate that the perceived dichotomy between business management and Christian ethics is not real, at least not in the African context. The basic argument propounded is that the principles of business management are actually complementary to the principles of Christian ethics. The principle of competition in business management and the principle of love in Christian ethics in Africa are used to illustrate the basic argument. The specific questions to which the paper is addressed are: Can one be a Christian and a successful business manager at the same time? How does competition compare with love as principles of human action? What are some of the challenges one faces in trying to be just, honourable, and of integrity in business management in Africa today?

Higher education in Africa continues to realise great expansion of business management studies, at both the undergraduate and post-graduate levels. Among the most popular academic programs in Kenyan universities is the Master of Business Administration (MBA). This may be interpreted as a response to increasing business studies and practice. While such technical skills as accounting and statistics remain the core of business studies, the contribution of such theoretical subjects as business ethics is critical to successful business practice. It is the hope of this writer that this essay will contribute to a greater understanding of the importance of business ethics. The writer does not claim expertise in business management. Indeed, her use of non-technical terms indicates her unfamiliarity with the discipline. Nevertheless, she remains convinced, with Robin Gill, that:

Ethicists have no choice but to stray into any number of academic areas which are not properly their own. Precisely because so many areas of human endeavor raise ethical dilemmas, and because experts in other areas are not necessarily ethicists themselves, straying soon becomes a way of life. I see no respectable alternative. And, having strayed, ethicists have to make choices.²

We cannot agree more with Gill. Experience in the academic world informs this writer that ethics is not a discipline: it is a multidiscipline of an interdisciplinary nature. It is against this background that this paper is written.

2. THE HISTORICAL BACKGROUND TO CHRISTIAN MORALITY AND BUSINESS IN AFRICA

To understand the contemporary perception of Christian morality and business in Africa today, it is essential to understand the practice of business in traditional African societies, as well as throughout Church history. This is the case, because these are the realities informing the present worldview of the subject.

In traditional African societies, all work was business and all business was work. This means that all sorts of human activities were designated as business and all of them involved hard work. Since religion was completely intertwined with all departments of life, to live, which was to work, was to be religious. No sphere of human life lay outside religion in traditional African societies.

As is prevalent in Western thought, the primary function of religion in traditional African societies was regarded as that of instilling morality. Such moral values as hard work, honesty, justice, and charity were inculcated in individuals for consistent application to business. Thus, anybody who displayed application of these in her/his day-to-day life was appropriately rewarded, while one who did not was punished.

If we limit our understanding of business to commercial activities, that is, trade, we can identify barter trade as the first form of business in traditional African societies. Barter involved the exchange of goods for goods. Barter was essentially inter-communal: It was rarely carried out within communities or between individuals, because communalistic living ensured that all within the community shared their resources. The Masai of the present day Rift Valley Province of Kenya, for example, would exchange beads for tobacco with the Kikuyu of central Kenya. In these transactions, justice and honesty, especially with regard to measures and qualities of goods, were upheld. The strong belief in the presence of God in all transactions ensured business morality.

The introduction of the money economy during the colonial period, coupled with the introduction of Christianity, introduced a new concept and practice of business to Africa. This understanding of business entailed a new understanding of morality. A cursory look at the development of business morality throughout Church history illuminates our minds on business morality, since it was introduced to Africa by European colonists and missionaries.

Throughout the Early Church and the Middle Ages of Christianity, all human activity was regarded as business. As in traditional African

societies, to work was to be religious, since it was not possible to conceive of any activity outside the concern of the Church. The Church was the sole authority in all matters of state, whether social, political, or economic. Indeed, the Church had indisputable influence on virtually all spheres of human activity. Political leaders were often also Church leaders.

The Great Reformation, led by Martin Luther, marks a beginning of gradual erosion of Church authority and influence. Power began to shift from the Church with the creation of secular political leadership, necessitated by Church wrangles. Suffice it to explain the creation of secular political authority. Prior to the Reformation, the Church was a symbol of social order and unity. With the development of persistent division of the Church into denominations and sub-denominations, social order, unity and harmony were in jeopardy. The creation of an alternative basis of authority to control social disintegration was inevitable. Thus the separation of Church and state was occasioned. G. J. Rossouw observes: 'The denominational struggles after the Reformation made it impossible for the state to claim a theological legitimisation of its existence and actions without at the same time becoming involved in the rivalry between the denominations.'³

With time, a clear division of authority emerged, with religion playing less and less of a role in public spheres, especially political and economic spheres. A dichotomy emerged between public life and private life. This marks the beginning of the loss of ethical values in certain spheres of what came to be designated as public life. Moreover, the term business began evolving to limit itself to commercial enterprise.

The rise of modernity worsened the situation created by the Reformation. Rationalism, founded by such philosophers as René Descartes, coupled with empiricism, came to dominate European culture. While rationalism considers reason to be the basis of knowledge, empiricism emphasises experience. Since religion cannot be subjected effectively to either rational or empirical proof, it continued to lose its influence on public life, becoming relegated to the individual, private sphere. Describing this development, Anton A. van Niekerk notes:

The crisis of religion and ethics in the public domain gave rise to the ideology of positivism with its claim that a radical division obtains between facts and values, and that science ought to operate on a completely value-free basis.... Economists increasingly preferred to avoid issues concerning the morality and ends of the economy they were studying, instead focusing

3 G. J. ROSSOUW, *Business Ethics: A Southern African Perspective*, Johannesburg: Southern Books, 1994, p. 132.

almost exclusively on the mechanics of economic phenomena and processes.⁴

With time, this thinking came to be dominant in European culture: the oil of religion and the ethics associated with it could not mix with the water of economics. Moreover, the age of mercantilism, characterised by the expansions of trade and growth of nationalism, saw economics become a handmaid of politics: economics enabled the accumulation of wealth towards the creation of 'prosperous national states'. This made economic matters more and more political matters and, consequently, less and less of religious concern.⁵

Christian missionaries to Africa in the Eighteenth and Nineteenth Centuries, informed by the Darwinian theory of evolution, sought to civilise the "primitive African". This involved not only Christianising them, but also providing them with a new culture in terms of socio-political organisation and new ways of economic management. Therefore, the missionaries condemned the traditional African way of life that integrated religion into all aspects of life. African cultures began giving way to European culture, characterised by the compartmentalisation of life. The African way of life increasingly began to cease to be a whole, breaking up into six departments, some of which are assumed to have no relationship with others. These departments are what J. N. K. Mugambi calls the six pillars of culture, namely: politics, ethics, economics, religion, kinship, and aesthetics.⁶ Economics and ethics, as pillars of culture, are assumed to have no relationship with one another. Business, which is an aspect of economics, is seen as an enterprise whose sole purpose is to make as much profit as possible, without asking moral questions. Thus, the principles of business management are often considered opposed to the principles of Christian ethics. Under the constraints of this essay, this writer proposes to illustrate the error of separating business from Christian ethics in Africa today. The writer compares the business principle of competition with the Christian ethical principle of love, from an African Christian theological perspective.

3. COMPETITION AND LOVE

Central to business management is the existence of markets. The term market has a dual meaning. It may refer to a place where goods and

4 Anton A. VAN NIEKERK, 'To Be a Christian and in Business', in LEJEUNE and ROSEMAN, *Business Ethics in the African Context Today*, p. 15.

5 J. L. HANSON, *A Textbook of Economics*, London: McDonald, 1977, p. 11.

6 Jesse N. K. MUGAMBI, 'Religion and the Socio-Construction of Reality', Inaugural Lecture presented at the University of Nairobi, 26th December 1987, Nairobi: University of Nairobi Press.

services are exchanged or, in its wider meaning, it may refer to the extent of sale for specific goods and services. It is in the context of the latter meaning that people describe a situation as providing a wide market for certain commodities. The term market is used to refer to the latter meaning throughout the context of this essay.

From an economic perspective, competitive markets promote efficiency among business managers, leading to higher productivity and, consequently, development. This means that competition is one of the primary principles of business management. Derived from the verb 'compete', 'competition' refers to actions attempting to win something by defeating others who are doing the same.⁷ With specific reference to business, we refer to competition for sale of goods and/or services by various producers.

J. L. Hanson identifies three forms of competition (market environments), namely: perfect competition, imperfect competition, and monopoly.⁸ He observes that while perfect competition and monopoly are purely theoretical concepts, imperfect competition is what is found in reality.⁹ The more the market environment tends towards perfect competition, however, the better the situation in terms of effectiveness and productivity. On the other hand, the more imperfect competition tends towards monopoly, the more it ceases to be competitive and the worse the situation becomes in terms of efficiency and productivity.

According to Hanson, perfect competition is characterised by:

1. a large number of producers, each producing only a small fraction of total output, so that no firm can influence the price of the commodity in the market by increasing or decreasing its output;
2. homogeneity of commodities on sale in terms of quality and quantity; and
3. absence of restriction on the entry of new producers into the industry.¹⁰

Although perfect competition is clearly theoretical, since it is the ideal towards which business management strives, our discussion of competition is limited to it. It suffices, however, to clarify all three of the

7 A. S. HORNBY, *Oxford Advanced Learners' Dictionary of Current English*, Oxford: Oxford University Press, 1996.

8 HANSON, *A Textbook of Economics*, p. 230.

9 *Ibid.*

10 *Ibid.*, p. 230.

market environments. Below is a table, adopted from Hanson, to explain the features of competition, as opposed to those of monopoly.¹¹

Table 1: Features of Competition and Monopoly

Type of Competition	Producers	Commodity
Perfect Competition	Many	Homogeneous
Imperfect Competition		
(a) Monopolistic Competition	Many	Differentiated
(b) Perfect Oligopoly or Duopoly	Few or Two	Homogeneous
(c) Imperfect Oligopoly or Duopoly	Few or Two	Differentiated
Monopoly	Single	Single

Love may be defined as feelings, expressions, and practices of good will to fellow humans. These include acts of justice, kindness, compassion, charity, etc. Love goes beyond obligation, beyond legality, beyond responsibility. For our purposes, we limit love to justice, though justice is not equal to love. Justice is only one expression of love. It is an act of love, among which are many other acts. We wish to limit our understanding of love to justice, because love in its totality is like perfect competition: it cannot be achieved in real life and, therefore, remains a theoretical concept. But, it is the state to which we strive. Justice is the minimum requirement of love. It is the prerequisite act to all other acts of love, so that one cannot love without being just. Unlike total love, justice is practical.

Justice is giving to each person what is due to him/her, that is, what he/she has a strict right to receive. In religious circles, as well as in secular circles, there may be disagreements regarding what constitutes justice. However, all people agree:

1. Justice is approbative: It involves judgement to approve or disapprove.
2. Justice is obligatory: One should always be just, because justice is not something one should choose to do or not to do.
3. Justice is standard: In similar situations, all persons ought to behave in the same way. Law indicates what is just and what is not.

Love is indispensable in human relationships, because of the social and interdependent nature of humans. The desire for interpersonal relations is one of the most powerful human instincts. Hence, the best human relationships, be they social, political, or economic, flourish where everyone is mindful of other persons' welfare. Thus, the Golden Rule governing all forms of social ethics, be they religious or not, is 'Do

11 *Ibid.*, p. 259.

unto others what you would like others to do unto you'. Erich Fromm maintains:

Love is the only sane and satisfactory answer to the problem of human existenceThe society which excludes, relatively, the development of love must in the long run perish of its own contradiction with the basic necessities of human natureTo have faith in the possibility of life as a social and not only exceptional-individual phenomenon, is a rational faith based on the insight into the very nature of man.¹²

Love is universal, because, rationally, for a human being to love others is to love oneself, since to show care and concern for others is to show care and concern for the self. This means that love is not necessarily selfish, for, as Kierkegaard observes, 'To love one's self in the right way and to love one's neighbor are absolutely analogous concepts, are at bottom one and the same thing.'¹³

4. THE BUSINESS PRINCIPLE OF COMPETITION AND THE CHRISTIAN PRINCIPLE OF LOVE IN AFRICA TODAY

Having presented what competition in business and love in Christian ethics are, the task of this section is to make a comparative analysis of the principle of competition and the principle of love. We have emphasised that efficiency and increased productivity are the desired ends of competition in business. To understand this principle, it is essential to be clear about the concept of efficiency as the desired end of competition. Peter John Opio defines 'efficiency' in business as

the ability, on the part of the entrepreneur or enterprise, to deliver goods and services well to customers, without wasting time or resources, and it includes, secondly, the use of skills, tools, systems, etc. which are needed to provide satisfactory results. An efficient business, then, is one which delivers the highest quality of products and services to its customers, in the shortest possible time, at the lowest possible cost to the enterprise.¹⁴

This definition indicates elements of love in competition. The entrepreneur is interested not only in making profit, but also in the welfare of his/her customer. Thus, goods and services must be of the highest quality possible, and must be delivered in the shortest time possible, with minimal wastage of resources. Wastage of time and wastage of resources on the part of the entrepreneur translate into increased costs of production and, consequently, increased costs to the customer. Without the welfare of the

12 Erich FROMM, *The Art of Loving*, London: Union Paperbacks, 1962, p. 109.

13 Søren KIERKEGAARD, *The Works of Love*, trans. David F. SWENSON and Lillian Marvin SWENSON, Princeton: Princeton University Press, 1946, p. 17.

14 OPIO, 'Towards an Ethics of Business in Africa', p. 97.

customer in mind, no business will be efficient. This corresponds to the statement that to love others is to love oneself.

In Christian ethics, love is extended to all human persons, whether one knows them or not. Love flows out to all peoples, since they all belong to the family of God. In traditional African societies, human essence (*umuntu*), present in all persons, requires that all persons be treated with love. *Umuntu* is recognised as the property uniting all human beings into one humanity. On the universality of Christian love, Fromm notes:

I love from the essence of being and experience the other person in the essence of his or her being. In essence, all beings are identical. We are all part of one; we are one. This being so, it should not make any difference whom we love.¹⁵

In business, the welfare of the customer, whether he/she is or is not known to the entrepreneur, must be borne in mind at all times and must be practically considered, if the business is to be efficient.

Justice is a key element in business management. A perfect market, which facilitates perfect competition, is characterised by freedom of both the entrepreneurs and the customers to sell and to buy, respectively. It is also characterised by fair play and equal opportunities for both sellers and buyers, so that there is no preferential treatment. Homogeneity of goods and services in terms of quality and quantity facilitates competition and, consequently, increased productivity and efficiency, for the benefit of both the buyer and the seller.

Christian love is not an emotional reaction. Emotions are often destructive, because they may be blind to greed and vanity. But love is objective and rational. It calls for a clear understanding of facts, after which decisions are made, will is maintained, and promises are kept. This means that love involves discipline and control.

The same may be said of competition in business. Imperfect competition, which leans more towards monopoly than perfect competition, ceases to be competition. It becomes an emotional, selfish response that is blind to greed and vanity. Such 'competition' often leads to destruction of others, as well as destruction of the entrepreneur and his business. The following comment by Fromm may apply to business management, as it applies to love: 'Many nations have gone to their destruction because they were not able to free themselves from the

15 FROMM, *The Art of Loving*, pp. 50-51.

irrational notions that were determining their behaviour and because they were not able to learn the way of reason.’¹⁶

We could add that many individual entrepreneurs have suffered a similar fate. The case of the Euro Bank in Kenya, now referred to as ‘the over Kshs 3 billion banking disaster’, is an appropriate illustration of an individual entrepreneur whose selfish response was overcome by greed and vanity. The result is the fall of many individuals and businesses, including the person responsible and his own business.

Competition in business may also be compared to Christian love in that both require an objective analysis of facts within a local situation vis-à-vis the global situation. Opiio enumerates ‘the necessity of strategic vision’ and ‘a commitment to the needs of the society at large’ as two of the three interrelated factors crucial to understanding competition in business. The third factor enumerated is ‘freedom, fairness, and equal opportunities for all’.¹⁷ Developing a strategic vision in business management is about objective analysis of the market forces in both international and local scenes to determine what this means in the present and in the future. It is only with the knowledge resulting from such an analysis that an entrepreneur can make a commitment to the real needs of a society. If business is about meeting the real needs of a society, then successful business firms must apply love.

It is against this understanding that current economic globalisation may be regarded as destructive to Africa. Proponents of globalisation argue that it frees ‘the forces of competition that help to channel the energies of people and the resources of countries into activities where they are likely to be most productive’.¹⁸ But globalisation is not competitive in the real meaning of the word. From the African perspective, globalisation is monopolistic, because it ‘requires sophisticated technology, highly skilled labor and competitiveness. Sub-Saharan Africa lacks all of them.’¹⁹

In a more overt expression, Daniel Offiong concurs with Jerry Rawlings, the former President of Ghana. On 24 March 1998, while welcoming then President William Clinton of the USA, Rawlings remarked:

16 FROMM, *For the Love of Life*, trans. Robert KIMBER and Rita KIMBER, London: The Free Press, 1986, p. 181.

17 OPIO, ‘Towards an Ethics of Business in Africa’, p. 98.

18 Charles W. OMAN, *Globalization and Regionalization: The Challenge of Developing Countries*, Paris: Development Center, OECD, 1994, p. 9.

19 Daniel A. OFFIONG, *Globalization: Post-Neodependency and Poverty in Africa*, Enugu: Fourth Dimension, 2001, p. 6.

This continent is ready and able to do business in today's liberalized world and competitive market place . . . Globalization has become a factor of our time. However, some aspects of the present international economic order tend to obstruct our efforts and have led to increasing marginalisation of many of our countries from the opportunities for growth and development.²⁰

Rawlings was just being diplomatic in referring to global markets as 'competitive'. The global market is positively oligopolistic, since the producers are few and the commodities on sale are highly differentiated. This borders on monopoly, in which competition is completely absent. Globalisation, therefore, cannot be efficient, nor can it lead to productivity. If it is not restructured strategically towards perfect competition, it is bound to be destructive in the long run, not only to poor countries, but eventually also to its main players. Indeed, the principle of competition applies to all forms of business, regardless of whether they are macro- or micro-realities.

5. THE CHALLENGES OF ETHICAL BUSINESS PRACTICE IN AFRICA TODAY

Scanning the contemporary global and local situation, where the most abominable of all human impulses, the urge to exploit others, is almost accepted without question, one wonders whether it is possible to be both a Christian and a successful business manager in Africa today. The preceding discussion suggests that successful business management requires ethical practices, at least justice as the minimum requirement of love. Given the realities of our contemporary situation, however, it is naïve to simply make such a statement without qualifying it.

Thinkers such as Simone Weil and Albert Schweitzer argue that love is not compatible with secular life. Their arguments have merit to a certain extent, when one considers the demands of modern life. In a capitalistic system, where each strives towards personal goals, competition in business and Christian love do not seem compatible. Indeed, as already noted, perfect competition and love are ideals to which we aspire. On the specific subject of business management, it would seem that some sort of cheating is required for one to be successful. Advertisements, which are central to success in business, are often deceptive. For example, in a statement like 'Of all the brands of cigarettes tested, Sportsman has the least amount of nicotine', misinforming the customer is often intended. The impression created is that all brands, or at least many brands, were tested. Yet, only two brands may have been tested. Even worse, only

20 Jerry RAWLINGS, cited in *African Recovery*, August 1998, p. 11.

Sportsman may have been tested. This poses challenges to the ethical practice of business management.

As has already been discussed in this essay, it is not possible to find a market environment that is perfect. There are always different types of commodities. For example, various brands of alcoholic drinks are so different that some are not alcoholic drinks in the strict sense of the word. There are cases in Kenya of people dying after consuming poison labelled as alcoholic drinks.

In our imperfect world, it is not possible to ensure that there are no restrictions on entry of new producers into the market. While we can control policies governing business management, to enable everyone to join the business world of their choice, life is more than this. A reality such as poverty, which is a major restriction to entering markets as producers, may not be controlled. This poses a major challenge to the ethical practice of business management.

Ethicists and business managers have to address these and other challenges. Towards this end, this writer maintains that development of reason is key to building morality in business, as in all other aspects of life. Reason shows that a broad social interest is not in conflict, but in ultimate harmony with wise egoism. Reason on its own, however, cannot cultivate ethical business practices. This has to be complemented with communalistic thinking and practice of love, as propagated in traditional African societies and in Christian ethics, respectively. After fulfilling the demands of justice, a successful business manager seeks to fulfil other demands of love, such as charity. Through such acts, especially acts of justice, resources may be more evenly distributed and less exploitation may be experienced. An important thing to remember is that wealth is not necessarily material. As is understood in traditional African societies, there are other forms of wealth, such as social capital. That one must always guard himself/herself from greed and vanity is a great truth in business management. This requires discipline and self-control.

Having a theology of life, besides a philosophy of life, is also important to successful business management. According to Christian ethics, all resources belong to God, since He created them all (Gen 1). Humans are only stewards. In traditional African societies, such things as land were never owned. People only held them in trust for future generations, having inherited this trusteeship from past generations. Such a theology of life would help one guard against greed and vanity by giving oneself contentment. As expressed by St. Paul:

Well, religion does make a person rich, if he is satisfied with what he has. What did we bring into this world? Nothing! What can we take out of this world? Nothing! So, then, if we have food and clothes, that should be enough for us. But those who want to get rich fall into temptation and are caught in the trap of many foolish and harmful desires which pull them down to ruin and destruction.²¹

In spite of the numerous challenges to the ethical practice of business management, there is no alternative to ethics for those who wish to be successful business managers. There is no success in accumulating a large amount of money, only to live miserably for lack of other sources of wealth, only to fall into ruin and destruction. Indeed, competition in business management is synonymous with cooperation, because if a community is not in social harmony, no success, even in material terms, may be sustained.

John Akers, former chair of IBM, one of the major world enterprises, insists that being moral pays off even in strict secular business terms:

We compete as a society. No society will compete very long or successfully with people stabbing each other's back; with people trying to steal from one another; with everything requiring notarised confirmation because you cannot trust the other person; with every little squabble ending in litigation; and with the government writing reams of regulatory legislation tying business's hands and feet to keep it honest.²²

Akers is right. The principle target of business is to make profit. Any student of business management recognises that income is not the same thing as profit. In fact, the surest way to fail in business is to confuse income with profit. Many businesspersons have gone bankrupt because of living luxuriously on income without due regard to profit. Profit is calculated by subtracting all expenses from total income.

John Magangi indicates that the Bible uses financial terms to illustrate spiritual truths.²³ He cites an example from one of the famous questions of our Lord Jesus Christ: 'What shall it profit a man, if he shall gain the whole world and lose his own soul? Or what shall a man give in exchange for his soul?' (Mk 8:36-37)

Magangi accurately interprets Jesus' words to mean that one can have all the 'income' life has to offer – health, wealth, and social prestige

21 I Tim. 6: 6-9 (Good News Bible).

22 John AKERS, 'Ethics and Competitiveness: Putting First Things First', *Sloan Management Review* (Winter 1989), p. 69.

23 John MAGANGI, 'Sunday Memo: The Bottom Line in the Business of Living', *The East African Standard*, 30 March 2003, p. 22.

– and still be spiritually bankrupt.²⁴ It is clear that life is itself a business enterprise. We have to consider expediently all forms of human wealth, which include social and spiritual capital, if we are not to confuse income with profit.

6. CONCLUSION

This essay sets out to illustrate that the perceived dichotomy between business management and Christian ethics in Africa is not real. Using the principle of competition in business and the principle of love in Christian ethics, the writer propounds her major argument that to be a successful business manager, one has to be ethical.

Presenting the practice of business in traditional African societies, as well as through Church history, the writer indicates how the dichotomy between public life and private life emerged, marking the beginning of the loss of ethical values in such spheres as that of business. With this historical background, competition in business and love in Christian ethics are discussed.

A comparative analysis of the principle of competition and the principle of love indicates that there is no dichotomy between business management and Christian ethics in Africa. Euro Bank is cited as an example of what failure to guard oneself from greed and vanity does to a business firm and its manager. Deriving from the basic argument that one has to be ethical in order to be successful in business management, the writer suggests that there is a need to restructure globalisation, in order to make it truly competitive in terms of efficiency and productivity. Otherwise, the global enterprise, together with the entrepreneurs associated with it, may fall into ruin and destruction.

While being ethical is desirable, this writer is not naïve to the challenges posed to ethical business practice in Africa today. She presents some of these challenges and proposes not only a philosophy of life, but also a theology of life for business practice.

THE PURPOSE OF BUSINESS MANAGEMENT IN THE LIGHT OF CATHOLIC SOCIAL TEACHING

HILARY GEORGE NDEMO

1. INTRODUCTION

This paper is an attempt to provide a brief analysis of the crisis of the contemporary market economy, pointing out where it goes wrong, while raising a new challenge to this economy that needs to be addressed as soon as possible: ‘an inquiry into how economic moral principles can be based on or grounded in the economy’. Working from the premise that Catholic social teaching can lead us to meet this new challenge, I move on to conduct a brief analysis of Catholic social teaching, which I then compare with the traditional justification of ethical profits and the paradigms controlling our current market economy. I then conclude that Catholic social teaching stands a better chance than its rivals of leading us to meet the new challenge of the contemporary market economy.

I have taken Catholic social teaching as important in business economy for a number of reasons. First, the Catholic Church’s position that the economy’s ultimate end is to serve humankind and not vice versa is an important reminder to all about business’s proper role within a broad range of human activities. In simply having an end (God, the Kingdom, and so forth) before it, the Church can assess the suitability of certain economic systems and business actions. In addition, the Church’s insistence that the economy must account for the least well off establishes an often-overlooked benchmark for all and, in this case, for business practitioners and business ethicists.

Secondly, the Catholic Church’s example reveals how an institution’s ethic can inspire people to act individually and collectively in a moral manner. Because the Church’s precepts and narratives advance an action-guiding and ideal-based ethic that is altruistic rather than self-focused, practical rather than perfunctory, the Church’s ethic illustrates how a corporate ethic can inspire and oblige the membership to act morally in specific ways.

2. ANALYSIS OF THE CONTEMPORARY MARKET ECONOMY

The history¹ of our times (whether religious, cultural, social, political, economic, or technological) seems to be characterised by two aspects: cleverness and wickedness. This mixture of cleverness and wickedness lies at the root of our troubles.² To be exact, as Karl Popper points out, the main troubles of our time are not due to our moral wickedness, but, on the contrary, to our often misguided moral enthusiasm: to our anxiety to better the world in which we live.³ Our moral enthusiasm is often misguided, however, because we fail to realise that our moral principles, which are sure to be simple, are often difficult to apply to the complex human and political situations to which we feel bound to apply them. This is clearly illustrated by the contemporary economic situation, as analysed by Richard Barnett and Ronald Muller in *Global Reach: The Power of the Multinational Corporations*. This book has thirteen chapters, which fall into three parts. The first part sets forth the aims of multinational corporations: they propose to run the world, for they can do the job that our little national governments are not equipped to do. The second set of chapters delineates what the multinational corporations are doing to the underdeveloped countries: they are making them more hopelessly worse off than they otherwise would be. The third part asks what these corporations, which are in the main American, have been doing to the United States: the answer given is that they are treating their own country in the same way they are treating the underdeveloped countries, and that in the long run the effects will be the same as in the rest of the world.

We are forced to wonder with Bernard Lonergan: if the multinational corporations are generating worldwide disaster, why are they permitted to do so?⁴ There is nothing really new about multinational corporations. They aim at maximising profit, which has been the aim of economic enterprise since the mercantilist, industrial, and financial revolutions ever more fully and thoroughly took charge of our affairs. What is new about multinational corporations is merely that they maximise profit, not in some town or city, not in some region or country, but on the global scale. They buy labour and materials in the countries where they are cheapest. Their credit is unimpeachable and, consequently, they can

1 I am taking history here broadly to mean 'human affairs'.

2 Karl POPPER, *Conjectures and Refutations: The Growth of Scientific Knowledge*, New York: Harper Torchbooks, 1968, pp. 364–76.

3 *Ibid.*, p. 365.

4 Bernard LONERGAN, *Macroeconomic Dynamics: An Essay in Circulation Analysis*, *Collected Works of Bernard Lonergan*, Vol. 15, ed. Fredrick G. LAWRENCE, Patrick H. BYRNE, and Charles C. HEFFING, Jr., Toronto: University of Toronto Press, 1999, pp. 99–100.

secure all the money they want from whatever bank or money market is in a position to create it. Their marketing facilities are a global network, and to compete one would first have to build up a global network of one's own.

The multinational corporations have expanded to the extent that they have become a growing concern. They are built on the very principles that slowly but surely have been moulding our economics, our business management, our society, our culture, our ideals and practice for centuries. They have created a drive in business that is associated with one invented motive to cover all that is implied in business management: *the motive to make profit*. This motive to move ahead in turning business into a very profitable venture, while keeping track to be ahead of all competitors, has become one of the dominant trends characteristic of business today. It calls for right methods and right ideas as indicative of the wave of the future and reflective of the signs of the time. Precisely this has made all business firms desire to turn their businesses into leaders in their fields. And it has convinced them to believe that profits are a must in this competitive world, and not changing and moving fast enough will result in isolation of a business firm to the extent of suffering heavy losses, like those using the market theory of 'market share first and profits come next'. In their understanding, profits never come if you do not make them fast enough.

I would like to point out that these motives, as well as the other long-accepted principles, are inadequate. They suffer from radical oversights. Their rigorous application on a global scale, according to Barnet and Muller, heads us for disaster. They have created what the Jesuit scholar Lewis Watt calls ironclad laws of economics.⁵ For one thing, they discourage any business enterprise attempting to pay what Catholic social teaching speaks of as a 'family wage', since this as a matter of fact makes them less successful than their competitors who do not attempt to do so. Thus, there is created a problem of either starving the workers to keep capitalism going, or feeding the workers and ruining capitalism. The moral precept of a just or family wage, so stressed by the social encyclicals, remains extrinsic to the economic reality of the concrete situation of businessmen and wage earners. There has arisen, finally, a large gap between well-intentioned moral demands and economic exigencies, which calls for an inquiry into how economic moral principles can be based on or grounded in the economy itself. Unfortunately, not even the great orientations of twentieth-century politics, such as liberal

5 Lewis WATT, S.J., *Catholic Social Principles: A Commentary on the Papal Encyclical RERUM NOVARUM*, London: Burns, Oates & Washbourne, 1929.

capitalism, communist socialism, and all nationalisms, in spite of their integral relation to concrete economic issues, have based their policies on a concrete understanding of the dynamic schemes that require human cooperation and the exchange processes of the market.

Failure to understand correctly what is needed if the economic process is to perform well gravely threatens democratic liberty. It is absurd to note, as the authors of *Global Reach* confess, that 'the new system needed for our collective survival does not exist yet'.⁶ If it is true, as Lonergan says, that 'when survival requires a system that does not exist, . . . the need for creating one is manifest',⁷ then we have a task to create one. What is needed is a new system that bases its policies on a correct understanding of the dynamic schemes that require human cooperation, that call forth some procedure that sets the balance between the production of consumer goods and new capital formation, some method that settles what quantities of which goods and services are to be supplied, and some devices for assigning tasks to individuals and for distributing among them the common product, namely, the exchange process of the market.

Although we have some work that points out a hint to such a system, such as Jane Jacobs⁸ and Arnold Toynbee,⁹ these works need to be supplemented by two demands, which are considered suitable to control our wickedness and cleverness. First, from economic theorists, we need a new and specific type of analytical economic theory that reveals how moral precepts have both a basis in economic process and an effective application to it. Second, from moral theorists, we need a moral theory that provides specifically economic precepts that arise from the economic process itself and promote its proper functioning and purpose. It is the contention of this essay that, of all the literature we have, Catholic social teaching comes closest to meeting these demands. However, they are not among the resources available to business managers who seek to effectuate proper and efficient personnel management, as they are close to academic journals, management consultants, business magazines, newspapers, and books.

The encyclicals form a body of literature from the Vatican that also furnishes guidelines for responsible human resource management. These Vatican documents are objectively referred to as Catholic social teaching.

6 Richard J. BARNET and Ronald G. MULLER, *Global Reach: The Power of the Multinational Corporations*, New York: Simon & Schuster, 1974, p. 385.

7 LONERGAN, *Macroeconomic Dynamics*, p. 100.

8 JANE JACOBS, *The Economy of Cities*, New York: Random House, 1970.

9 ARNOLD TOYNBEE, *A Study of History*, 12 vols., 1934-61.

They span an entire century and provide a broad, rich source of guidance on social and economic questions. Above all, they present a mature framework for approaching a range of social questions in accordance with Catholic doctrine, with one such question being the purpose of the business firm.

The Catholic social encyclicals recognise the fact that we are in an era of a technological society, which is fascinated by 'having' but often blind to the meaning of 'being' and to its metaphysical roots. By a society fascinated with 'having', the Church means a society that identifies intelligence with what it makes, not with the prior question of what the thing is that is being dealt with. This fascination has led to competing ideological systems that claim absolute autonomy for man in achieving his own destiny. Those ideologies are now considered to be 'the signs of the times' and supposedly are scientific and reflect 'the wave of the future'. The contrast of 'being and having' seems to have been exclusively an interest of the modern popes, such as Paul VI and John Paul II. These two popes feel that the search for signs sometimes becomes a means to escape the understanding of what we already know, of what is already quite clear. As Catholic social teaching indicates, this is what is clearly happening in market economies, where the drive to business is associated with the one artificial motive to cover all that is implied in business management: *the motive to make profit*.

We interpret Catholic social teaching's concern as a call for distinction between motive/objective and purpose. In the field of the market economy, it is a distinction between the objectives of the people directing a firm and the purpose of all firms. We shall now look at what the social teachings have to say about this.

3. CATHOLIC SOCIAL TEACHING AND THE PURPOSE OF THE FIRM

The most recent document of Catholic social teaching, *Centesimus Annus*,¹⁰ presents a normative claim about the purpose of the business firm: the purpose of the firm is broader than merely profit. Besides providing guidance as to what the purpose of the firm is, it proposes kinds of objectives that are appropriate to the firm. The word 'purpose' can be used to mean both 'the object for which a thing exists' and 'that which one sets before oneself as a thing to be done or attained'. The former is something inherent in the thing, while the latter is something we choose. For instance, the purpose of a knife is always to cut, while my

10 *Centesimus Annus* was written by JOHN PAUL II in 1991, the centenary of LEO XIII's encyclical *Rerum Novarum* (*On the Condition of the Working Classes*).

purpose in using the knife could be to make a sandwich. That which one sets before oneself as a thing to be done or attained we call an objective. Thus, the objective of business management is the particular goal or set of goals that each individual firm will choose, which is sometimes referred to as the firm's mission. It can also be equated with the motive or psychological reason you choose to do something, which may or may not be congruent with the purpose of that thing.¹¹ Regardless of the motives of the people directing a firm, the objectives of that firm should be congruent with the purpose of all firms. An improved understanding of the purpose of the firm enables us to develop objectives that are more in accord with this purpose.

Centesimus Annus, in summarising the developments in the century since Leo XIII's *Rerum Novarum* and focusing particularly on economic questions, can be considered the most recent, comprehensive statement of Catholic social teaching on economic issues. It, therefore, serves as my primary source of Catholic social teaching in this essay.

Centesimus Annus makes a normative statement about the purpose of business management:

The purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society.¹²

Without attempting to define a comprehensive enumeration of all the aspects of the purpose of the firm, we can note three different aspects in this statement: profit, service to the society, and a community of persons satisfying their basic needs. Let us take them one by one.

3.1. PROFIT

Centesimus Annus endorses the importance of profit as one aspect of the purpose of business. This endorsement is implicit in the above citation, but is made explicit elsewhere in the document: 'The Church acknowledges the legitimate *role of profit* as an indication that a business is functioning well. . . . Profit is the regulator of the life of a business.'¹³ This endorsement is clearly qualified, however, so that profit is not the most important aspect of the firm's purpose; in fact it is at most only equal

11 Ronald F. DUSKA, 'The Why's of Business Revisited', *Journal of Business Ethics* 16 (1997), pp. 1401–09.

12 JOHN PAUL II, *Centesimus Annus (On the Hundredth Anniversary of Rerum Novarum)*, 1991, ¶ 35.

13 JOHN PAUL II, *Centesimus Annus*, ¶¶ 34–35.

to the other aspects of the purpose of the firm. *Centesimus Annus* states that ‘other human and moral factors [besides profit] must also be considered which, in the long term, are at least equally important for the life of a business.’¹⁴

The Church seems to understand that economics is a matter of natural ethics. Although she agrees with the consensus among secular economists on the intellectual autonomy of economics, the Church nevertheless disagrees with its denial of any specific end or aim or finality. The Church considers, as the properly economic goal, the appropriate standard of living, the betterment of the material conditions of human existence. Economic activity provides the material substratum for the cultural creations of human ingenuity and aspirations.

3.2. SERVICE TO SOCIETY

According to *Centesimus Annus*, service to society is also part of the purpose of a firm. The argument for this has also been made elsewhere, namely, that the business firm ‘is an artifact created for the sake of society, specifically for the production of goods and services’.¹⁵ But this is not just any good or service. *Centesimus Annus* asks that companies be selective about the kinds of goods or services they produce and offer for sale. Decision-makers in the firm have a responsibility to determine whether the types of demand they are serving are indeed good for consumers:

The manner in which new needs arise and are defined is always marked by a more or less appropriate concept of man and of his true good. . . . In singling out new means to meet them, one must always be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones.¹⁶

In effect, *Centesimus Annus* is asking firms to take responsibility for the consequences of consumption of their products. Firms should proactively recognise when there is potential for harm arising from the sale of a particular product. In particular, *Centesimus Annus* attempts, following *Rerum Novarum*, to promote a holistic view of human life, including the psychological and spiritual dimensions of the person, and thus argues that firms should refrain from contributing, in their product and communication choices, to the excessively materialistic view of human life that is presented in much of contemporary marketing.

14 JOHN PAUL II, *Centesimus Annus*, ¶ 35.

15 DUSKA, ‘The Why’s of Business Revisited’, p. 1407.

16 JOHN PAUL II, *Centesimus Annus*, ¶ 36.

3.3. A COMMUNITY OF PERSONS, SATISFYING THEIR BASIC NEEDS

This third aspect of the purpose of the firm, the most innovative, may also be the most controversial contribution of *Centesimus Annus* on this topic. *Centesimus Annus* maintains that one aspect of the purpose of business is to enable people to satisfy their basic needs by working. *Centesimus Annus* wants the employees to be not just means to profit generation and service to society, but also ends in themselves. The document seems to be asking more than this: it seems to maintain that one aspect of the purpose of the firm is the *enabling of employment*. It is not merely a question of making sure that working conditions are provided that treat employers as ends in themselves, but also of recognising that one aspect of the purpose of the firm is the creation of employment.¹⁷ If we agree with this aspect of the purpose of the firm, then we must hold that every investment decision must consider what increase in employment could result from it, and also that a company which is able to generate a profit and serve society without employing anyone would be morally questionable.

The above remarks are justified, because the encyclical clearly identifies serving the needs of the employees as part of the purpose of the firm, in addition to generating profit and serving society. Elsewhere, Catholic social teaching argues that work itself is a fundamental human need. In the modern economy, most people work in firms. If work is a fundamental need, work is mostly created in firms, and such work is part of the purpose of the firm, then it seems that the creation of work is not the by-product of production, but *part of the reason we create firms in the first place*.

An earlier encyclical, *Laborem Exercens*, views work itself as an important human need, because it helps achieve human fulfillment. It states that ‘through work man not only transforms nature, adopting it to his own needs, but he also achieves fulfillment as a human being and indeed in a sense becomes “more a human being”’.¹⁸ Work is important in human life not only because it provides income, but also because it provides opportunities to develop one’s skills, character, and sense of self-worth.

This claim is supported in recent empirical work studying the negative consequences of unemployment on human development. Economist and Nobel laureate Amartya Sen, in a study of inequality and unemployment in contemporary Europe, notes the significant human and social costs of

17 Andrew V. ABELA, ‘Profit and More: Catholic Social Teaching and the Purpose of the Firm’, *Journal of Business Ethics* 31 (2001), pp. 107–16.

18 JOHN PAUL II, *Laborem Exercens*, 1981, ¶ 9.

unemployment there. Despite the relatively high transfer payments made by most European countries to unemployed workers, Sen cites evidence of psychological harm, social exclusion, loss of skills and motivation, and exacerbated racial and gender inequality among the unemployed.¹⁹

In referring to the business firm as a 'community of persons', *Centesimus Annus* indicates that it should be considered as a community, not merely as a collection of individuals. Several business ethicists have developed arguments for this conclusion. Human beings are social by nature and, therefore, the organisations within which they work should be communities of work, not merely collections of individuals.²⁰ Human identity is found only within a community, and for most this means at work in a company.²¹ The moral life requires the support of the right sort of community and, therefore, the moral life in business thus requires the support of the right sort of organisation.²² If we accept that these precepts are good, then we can also use them to measure what have always been accepted as the ethical standards by which the public has judged the business firm. I shall make this my next point of observation.

4. JUSTIFICATION OF ETHICAL PROFITS

David Vogel claims that the ethical standards by which the public judges business have remained remarkably constant over a long period of time.²³ He argues that these standards are centered on the general question of the legitimacy of profits and two more specific issues related to the means through which profits are earned.

Vogel traces basic questions about the legitimacy of profits back beyond the sixteenth century, noting that early Catholic doctrine held that the pursuit of profit was not pleasing to God. With the Protestant Reformation, however, came the notion of hard work being rewarded. A natural extension of this was the idea that profit was the just reward for hard work in the marketplace and profit came to be accepted as an honorable and worthy pursuit of business. In fact, this notion has

19 Amartya SEN, 'Inequality, Unemployment and Contemporary Europe', *International Labour Review* 136 (1997), pp. 155-72.

20 Robert G. KENNEDY, "'God's Project": A Catholic Vision of Business', Paper presented to the 3rd Annual John F. Henning Conference, 'Catholic Social Thought in the Academy: Engaging the Disciplines', St. Mary's College of California, 12-14 March 1999.

21 Robert SOLOMON, 'Corporate Roles, Personal Virtues: An Aristotelian Approach to Business Ethics', *Business Ethics Quarterly* 2 (1992), pp. 317-40.

22 Edwin M. HARTMAN, *Organizational Ethics and the Good Life*, New York: Oxford University Press, 1996.

23 David VOGEL, 'Business Ethics: New Perspectives on Old Problems', *California Management Review* 33 (1991), pp. 101-17.

been cited as the basis of modern capitalism²⁴ and the principle became so ingrained that choosing not to pursue profit was often associated with laziness and sin.²⁵ With the acceptance of profit as a goal, however, concerns shifted to the means by which profits were earned. Vogel identifies two specific issues that address these concerns.

The first of these is the matter of *intentions versus results*. The concern stems from one of the basic assumptions of a free market system: if everyone selfishly pursues their own interests, the welfare of the larger society will be maximised. Thus, while the intention of a firm may only be to increase its own profit, the result is thought to be beneficial effects for all. That this is at least partially true is clearly evident. Market economies have done very well in terms of increasing both wealth and security for the majority of individuals and, arguably, have improved the overall quality of life. Increasing social welfare is not necessarily the same as maximising it, however, and many people are still uncomfortable with a system designed around selfish intentions. This fear has some foundation and, therefore, looking at the results as well as the intentions became a useful measure of the ethics of a firm's strategy.

The second specific issue regards the trade-off of *private gain versus public good*. The question here revolves around the distribution of wealth. While profit may be seen as a just reward for hard work, society has always been concerned that the profit does not come at the expense of someone else. Thus, a theoretical advantage to the capitalistic system is that firms should only benefit (i.e. earn profits) if they provide something worthwhile to the market. If so, there is a win-win situation, with consumers gaining through access to the product or service and the firm earning profits from its sales. In reality, however, it is not clear that this is always the case. As such, comparing the private gain to the public good provides a useful measure of the legitimacy of any particular profit-making scheme.

Thus, while society appears to be reasonably comfortable with the basic idea of the capitalistic system and the general pursuit of profit, concerns still remain regarding both the means used in this pursuit and the distribution of the benefits resulting from particular approaches. Based on this, the issues of intentions versus results and private gain

24 Max WEBER, 'Die protestantische Ethik und der Geist des Kapitalismus', *Archiv für Sozialwissenschaft und Sozialpolitik* 20 (1904), pp. 1-54 and 21 (1905), pp. 1-110; trans. Talcott PARSONS, *The Protestant Ethic and the Spirit of Capitalism*, New York: Charles Scribner's Sons, 1905.

25 K. FULLERTON, 'Calvinism and Capitalism', *The Harvard Theological Review* 21 (1928), pp. 163-91.

versus public good have been used primarily to evaluate the underlying ethics of any strategy paradigm influencing the market.

Pope John Paul II is one intellectual who has recognised that there is present in our society a certain motive that drives us to read and identify with the signs of the time as one way of interpreting the events of the orders of action. But this search for signs has become a means of escaping the understanding of what we already know, of what is already clear. In most cases, he points out, what are regarded as signs of the time are whims that are looking for what is supposedly scientific and the wave of the future. This does not distinguish between the subject matter of human action and the subject matter of physical objects. The whole realm of the things most important to mankind does not appear within what is considered to be scientific and is in accordance with the methods of social sciences. Making them not exist, because they do not appear to social-scientific method is, in the eyes of the Pope, endorsing a narrow attitude. And it is this narrow attitude that is eating mankind. As the Slovak Prime Minister, Dr. Jan Carnogursky, observed during the United Nations Symposium on *Centesimus Annus*, 'the life of man is more complex, special, and in itself truer than any scientific theory could depict'.²⁶

Method only yields what it considers, so that its results depend upon what narrow object the method as such seeks to account for. What is, in other words, is not co-terminus with what information, however valid, our methods yield. We have often limited ourselves to political or economic explanations that do contain some truth, but which fail to indicate that anything further may be present and operative in the historical lives of actual human beings. No human person is confined in his destiny to economic or political institutions alone.²⁷ Not realising this, the intellectual climate of modernity has gradually taken out of nature and existence any sign of meaning, except what it puts there by itself and what originates in mankind itself. The end-result is a closed human world, in which nothing exists but what human will and technique puts there. It positively excludes any will open to the transcendent by virtue of the intellect's own realisation of its own finiteness.²⁸

26 Jan CARNOGURSKY, 'United Nations Symposium on *Centesimus Annus*' (14 October 1991), *L'Osservatore Romano*, 25 November 1991, p. 9.

27 See Roger HECKEL, S.J., *The Human Person and Social Structures*, Rome: Pontifical Commission on Justice and Peace, 1980.

28 See *Conversations with Eric Voegelin*, ed. R. Eric O'CONNOR, Montreal: Thomas More Institute Papers, 1980, pp. 1-36.

Although questions concerning business ethics and corporate social responsibility have been raised ever since the first dollar was made in trade, the narrow approach introduced by the modern intellectual climate has not enabled a comprehensive answer. This approach, when extended to questions concerning business ethics and corporate social responsibility, leads to the materialistic view of human life, as presented in the contemporary market economy, and makes firms devise plans to help them earn profits, which are for them the most important aspect of a business. Based upon this understanding, a myriad of strategic options have been suggested to help them earn profits. Teece, *et al.* identify three paradigms that have had a significant influence in the field of corporate strategy: 'competitive forces', 'strategic conflict', and 'resource-based' approaches.²⁹ According to the first paradigm,³⁰ the structure of the market is seen as the primary determinant of both firm and industry profitability. The second paradigm³¹ holds that firms should attempt to find the set of actions that maximises their returns vis-à-vis other competitors, given a particular set of circumstances and conditions. The last of these paradigms considers profits to flow from the specific capabilities and resources of firms, rather than from a firm's position within the market. These three paradigms have different ethical consequences.

While these paradigms all have the aim of producing profits for firms, each suggests a different route to reach this goal. If we were to judge them with the two criteria pointed out by Vogel, we would notice that the success of the comparative forces approach rests on its ability to violate the ethical criteria of intentions versus results. For it argues that the profitability of a firm is dependent upon its ability to cope with competition. As such, it suggests that a firm tries to select markets with favorable competitive conditions and to learn how to react to the basic forces that govern the rivalry between firms. In addition, the approach suggests that a firm should seek to defend itself against these forces and, where possible, try to influence them in its favour.³² In doing so, however, the firm is attempting to avoid and alter the very forces that work to turn self-interested behaviours into beneficial results for the larger society.

29 David J. TEECE, Gary PISANO, and Amy SHUEN, 'Dynamic Capabilities and Strategic Management', *Strategic Management Journal* 18 (1997), p. 510.

30 The competitive forces approach was developed by Michael E. PORTER in *Competitive Strategy*, New York: Free Press, 1980.

31 The strategic conflict approach comes from more recent work in industrial organisation economics, e.g., Timothy F. BRESNAHAN, 'Empirical Studies of Industries with Market Power', in Richard SCHMALENSEE and Robert D. WILLIG, eds., *Handbook of Industrial Organization*, Vol. II, Amsterdam: North-Holland, 1989, pp. 1011-58.

32 PORTER, *Competitive Strategy*, p. 90.

When not allowed to function smoothly, market forces are not able to work properly and the benefits of self-interested behaviour break down.

The avoidance of competitive pressures also means that the second criterion, private gain versus public good, is challenged. According to this criterion, profit should only be earned when a firm is able to offer something worthwhile in return to society, so that both sides benefit. In the competitive forces approach, however, the attempt is made to avoid competitive pressures, so that prices can be kept at inflated levels. If successful, the firm earns a profit without giving an equal return to society. In economic terms, these are considered monopoly profits and their potential harm to the greater public good is twofold. Not only do they artificially skew the distribution of wealth, but they also result in a deadweight loss to society, due to the restriction in production necessary to keep prices inflated.³³ Thus, the firm seeks to benefit at the expense of the public.

Because it ultimately relies on the same industrial economic base as the competitive forces approach, the strategic conflict school also shares many of its ethical problems. In its use of game theory, this approach is explicitly zero-sum. The argument is that a firm can only be deceiving other firms and restricting their actions.³⁴ Thus, the firm benefits only if its self-interested behaviour harms, rather than benefits, other firms and the larger society. In addition, the goal of this approach, like the competitive forces approach, is to earn profit through gaining monopoly power. This violates the private gain versus public good criterion, as well as that of intentions versus results.

From the ethical point of view, only the third strategy paradigm is encouraging. The resource-based approach regards earning a profit as beginning with the firm. The aim is to develop a firm's specific assets and capabilities, in order to reduce costs, raise quality, or otherwise offer something that other firms cannot presently match. By pursuing profits in this manner, a firm's self-interested behaviour should lead to positive results for the larger society. While the firm may still be interested only in profits for itself, the resource-based approach suggests that the route to these profits lies in offering something unique to the market. Thus, the self-interested quest for profit will lead the firm to attempt to add to society's value, as well as its own. If successful, both the firm and society benefit. If unsuccessful, society is no worse off than it was before the firm began its search and the self-interested behaviour has caused no harm.

33 F. M. SCHERER, *Industrial Market Structure and Economic Performance*, 2nd Ed., Chicago: Rand McNally, 1980, p. 47.

34 TEECE, PISANO, and SHUEN, 'Dynamic Capabilities and Strategic Management', p. 510.

Although this strategy is ethically acceptable, it does not have a strong foundation. Today, a greater spirit of partnership and teamwork is needed; competition alone will not do the job. It has too many negative consequences for family life, the economically vulnerable, and the environment. Only a renewed commitment by all to the common good can deal creatively with the realities of international interdependence and economic dislocations in the domestic economy. The virtues of good citizenship require a lively sense of participation in the commonwealth and of having obligations as well as rights within it. The nation's economic health depends on strengthening these virtues among its entire people and on the development of institutional arrangements supportive of these virtues. Competition, to be sure, is not to be excluded from commerce, but it must be kept within those limits, which make it just and fair and, therefore, worthy of man.³⁵ This is why we still need a better system that grasps the heuristic schemes of the market economy. Catholic social teaching reminds us that one may not take as the ultimate criteria in economic life the interests of individuals or organised groups, nor unregulated competition, nor excessive power on the part of the wealthy, nor the vain honor of the nation and its desire for domination, nor anything of this sort. Rather, it is necessary that justice and charity govern economic undertaking as the principal laws of social life.³⁶ It is important to note, too, that individual initiative alone and the mere free play of competition could never assure successful development. One must avoid the risk of increasing still more the wealth of the rich and the dominion of the strong, whilst leaving the poor in their misery and adding to the servitude of the oppressed.³⁷

It is unfortunate, however, that on these new conditions of society a system has been constructed that regards profit as the key motive for economic progress, competition as the supreme law of economics, and private ownership of the means of production as an absolute right that has no limits and carries no corresponding social obligation. This unchecked liberalism leads to dictatorship, rightly denounced by Pius XI as producing 'the international imperialism of money'. One cannot condemn such abuses too strongly by solemnly recalling once again that the economy is at the service of man.³⁸

35 PAUL VI, *Populorum Progressio* (*On the Development of Peoples*), 1967, ¶ 61.

36 PIUS XI, *Quadragesimo Anno* (*The Fortieth Year*), 1931, ¶ 88.

37 PAUL VI, *Populorum Progressio*, ¶ 33.

38 PAUL VI, *Populorum Progressio*, ¶ 26.

5. CONCLUSION

The Catholic Church has been, in many ways, an independent force in the modern world. Nothing quite like it exists as a living organism that can reflect on itself and on what it taught many years ago, as if such reflections all belong to the same coherent discourse going on today, in any today. The Church, in fact, has something to say about specific human situations. She formulates a genuine doctrine for these situations, a *corpus*, which enables her to analyse social realities, to make judgments about them, and to indicate directions to be taken for the just resolution of the problems involved. The Church's reflections are addressed to the coherence and meaning of human history as such. The Church's understanding of herself as being at work in the world, though not completely of the world, helps her to acknowledge forces that are not recognised by the social sciences or normal political wisdom. She is led in her understanding of the *here* and the *hereafter*, which she sees as not being the same, but as real and related, since both are required to explain the whole of human life itself. She strongly insists that man has an end or purpose beyond this life, in the light of which all man's being and action are interrelated. When this transcendent purpose is eliminated by the denial of God's existence, there is no guarantee of any order of justice and the good. What takes primacy in the absence of a principle of order are the selfish drives and prejudices. People lose sight of the fact that life in society has neither the market nor the state as its final purpose, since life itself has a unique value, which the state and the market must serve.³⁹

Clearly, this position neither exalts nor denigrates the state and market, but maintains that in order for them to be what they are, it is necessary to understand what purposes they do not by themselves establish. By being themselves, they can allow what they are not to flourish. They may end up in alienation, whereby they will seek meaning in a false utopia or material goods or power, as is commonly the case with people who have not found the meaning of life. Recognising in alienation a reversal of means and ends, the Church teaches that

since man is created to give of oneself, one cannot give oneself to a purely human plan for reality, to an abstract ideal or to a false utopia.... A person is alienated if he refuses to transcend himself and to live the experience of self-giving and of the formation of an authentic human community oriented towards its final destiny, which is God.⁴⁰

39 JOHN PAUL II, *Centesimus Annus*, ¶ 49.

40 JOHN PAUL II, *Centesimus Annus*, ¶ 41.

Clearly, in the Church's experience, disorders of soul and society are caused by this most fundamental failure to orient one's given existence to its proper end. This alienation is not an abstract experience, but something quite familiar in all modern societies. Mankind is not only or merely a political and economic being; hence, the need for an economics or politics that is freed from the ideological burdens and baggage that they are not equipped to handle. The substitutes for religion in the modern world have been largely political or economic doctrines refashioned into some overarching worldview. These ideologies have usually been put into reality by ideological thinkers, who have somehow grasped the reins of political power.

The Church carefully notes potential abuses and misunderstandings within the market economy. In the light of the theory and experience with socialism and the success of market economies, she affirms that the outlines of prosperity, how it is produced and conserved, are now basically known in the productive economies. What remains is for the bureaucratic dangers of the welfare state and the total control of the Marxist tradition to be confronted and removed.⁴¹

The Church understands that there is no possible discussion of the distribution of the world's goods, if the world cannot produce such goods. Exclusive discussion of distribution, which was so prevalent in much religious discourse about poverty, will simply preserve poverty, if it is not subsumed into a discussion of production. The Church also understands that this production is primarily a responsibility of individual peoples and nations themselves.⁴² Certainly, the primary responsibility for development rests with the people, who must organise themselves. Their governments have the duty of adopting adequate measures to strengthen as much as possible the capacities for initiative and work which their people have.

Positively, the Church understands that wealth is not primarily a function of land or money, but of intelligence.⁴³ The only real wealth is the human mind, as it is manifested within a system of work that allows for profit, entrepreneurship, freedom, and growth. But this requires that the system be created, since it is not already there. It is here that the Church provides good guidelines.

According to John Paul II, the Catholic tradition calls for a 'society of work, enterprise and participation', which is not directed against the

41 JOHN PAUL II, *Centesimus Annus*, ¶ 48.

42 JOHN PAUL II, *Centesimus Annus*, ¶¶ 42–43.

43 JOHN PAUL II, *Centesimus Annus*, ¶ 32.

market, but demands that the market be appropriately controlled by the forces of society and by the state to assure that the basic needs of the whole society are satisfied.⁴⁴ All of economic life should recognise the fact that we are all God's children and members of one human family, called to exercise a clear priority for 'the least among us'.

The Catholic Church, therefore, calls for us to work for greater economic justice in the face of persistent poverty, growing income gaps, and increasing discussion of economic issues around the world. She urges the use of the following ethical framework for directions of action. These principles are drawn directly from Catholic teaching on economic life:

- The economy exists for the person, not the person for the economy.
- All economic life should be shaped by moral principles; economic choices and institutions must be judged by how well they protect the life and dignity of the human person, support the family, and serve the common good.
- A fundamental moral measure of any economy is how the poor and vulnerable are faring.
- All people have a right to life and to secure the basic necessities of life (e.g., food, clothing, shelter, education, health care, safe environment, and economic security).
- All persons have the right to economic initiative, to productive work, to just wages and benefits, to decent working conditions, as well as to organise and join unions or other associations.
- All people, to the extent they are able, have a corresponding duty to work, a responsibility to provide for the needs of their families, and an obligation to contribute to the broader society.
- In economic life, free markets have both clear advantages and limits; government has essential responsibilities and limitations; voluntary groups have irreplaceable roles, but cannot substitute for the proper working of the market and the just policies of the state.
- Society has a moral obligation, including governmental action where necessary, to assure opportunity, meet basic human needs, and pursue justice in economic life.
- Workers, owners, managers, stockholders and consumers are moral agents in economic life, by our choices, initiative, creativity and investment, we enhance or diminish economic opportunity, community life, and social justice.
- The global economy has moral dimensions and human consequences. Decisions on investment, trade, aid, and

44 JOHN PAUL II, *Centesimus Annus*, ¶ 35.

development should protect human life and promote human rights, especially for those most in need, wherever they may live on this globe.

It is these moral principles that form the basis of the Church's understanding of the purpose of business management as delineated above. Working from these principles, the science of economics can realise a new system accommodating the two demands of a new economic theory and a new moral theory. In these precepts, we see how an organisation can remind people to consider their actions in terms of an ultimate end, how an exceptionally large institution can act in a unified manner while adapting to threatening or changing situations, and how a corporation can oblige its membership to act rightly and inspire its people to go beyond minimal moral requirements. The Catholic Church offers an alternative method that challenges highly individualistic, mundane, and transient thinking in market economy theory.

THE CHALLENGE OF BUSINESS: GOING BEYOND WEALTH MAXIMISATION AND PROFIT MAXIMISATION

ANNA MARIA E. MENDOZA AND CORAZON T. TORALBA

‘Every art and every inquiry, and similarly every action and pursuit, is thought to aim at some good; and for this reason the good has rightly been declared to be that at which all things aim.’¹ What is the proper objective of business? Is it the maximisation of profit or the maximisation of shareholder value? Should business go beyond the maximisation of profit and the maximisation of shareholder value? This paper will provide an answer to these questions through the use of Aristotelian ethical principles.

1. WEALTH MANAGEMENT AND THE AGENCY PROBLEM

The goal of the firm is to maximise the wealth of the owners for whom it is being operated. The wealth of the owners is measured by the price of the stock of the firm. When considering several decision alternatives, therefore, the manager should choose only those actions that are expected to increase share price. Thus, share price maximisation is consistent with owner-wealth maximisation. Return (cash flows) and risk are key decision variables in the wealth maximisation process.²

The goal of the manager is to maximise the wealth of the owners of the firm. The manager can be viewed as the agent of the owner or the stockholder who has hired him to manage the company for the benefit of the owners of the firm. An agent is someone who is given authority to act on behalf of another. Any manager who owns less than 100% of the firm is to a certain degree an agent of the other owners.

The manager-agent is concerned with personal wealth, job security, lifestyle, and fringe benefits, such as posh offices, country club memberships, and cars, all provided at company expense. These personal concerns may make managers unwilling to take any risk that will lead to a loss of job and damage to personal wealth. Generally, the result is

1 ARISTOTLE, *Nicomachean Ethics*, I, 1, 1094a1. Henceforth NE.

2 Lawrence J. GITMAN, ed., *Principles of Managerial Finance*, 9th Ed., Singapore: Pearson Education Asia, 2002, p. 17.

a compromise between building personal wealth and maximising the wealth of the owners.³

The agency problem arises from the conflict between the goals of the owners and the personal goals of the manager-agent. The manager-agent may place his personal goals ahead of his corporate goals. To prevent or minimise the agency problem and to contribute to the maximisation of the wealth of the owners, stockholders incur agency costs. There are four types of agency costs:

1. *Monitoring Expenditures.* These include expenditures for audits and control procedures that are used to assess and limit managerial behavior to those actions that benefit shareholder or owner wealth.
2. *Bonding Expenditures.* The owners pay a third-party bonding company to obtain a fidelity bond. The bond is a contract whereby the bonding company agrees to reimburse the firm a determined amount if a bonded manager's dishonest action results in a financial loss to the firm.
3. *Opportunity Costs.* The firm's organizational structure, decision hierarchy, and control mechanisms may result in a company's inability to seize opportunities quickly, thus leading to foregone profits.
4. *Structuring Expenditures.* The compensation plans of managers are structured to correspond with share price maximisation and, therefore, wealth maximisation. Managers are given incentives to act in the best interests of the owners and to compensate them for such actions. Compensation plans may include stock options (options that allow managers to buy stock at the market price set at the time of the grant) and cash bonuses (cash payments tied to the achievement of certain goals).⁴

The challenge for both shareholders and managers is to share the wealth that results from the company's operations. The company's sales and revenues generate wealth or profits. The wealth is generated from the money invested by the owners and from the efforts put in by the managers. Thus, all the persons involved in generating wealth should share in the wealth. They include the shareholders or stockholders, the managers, the employees, and the community within which the company operates.

3 *Ibid.*, p. 21.

4 *Ibid.*, pp. 22-23.

2. WEALTH ACQUISITION AND PRESERVATION

Aristotle discusses wealth acquisition and preservation in two of his major works: *Nicomachean Ethics* and *The Politics*. Both opera are treatises on what constitutes the good life for man. To Aristotle, the good life is understood as that state in which man is so contented that he does not aspire to anything more. The good life must be in accordance with the essence of man, which Aristotle understands as being a rational, connubial, and political animal. As an animal, he is one of the animated beings that form part of the material universe. Man is a being that grows, develops, nourishes, and reproduces. He shares these activities with the rest of the animal kingdom; yet he differs radically from animals, because of his capacity for reason. As a rational animal, he can deliberate on his acts. He acts with a sense of mission. He can envision the future, while working on the present and heeding the past. To effectuate his capacity to provide for the future, he establishes the family through conjugal union and through the union of families, the village and, from the aggregate of villages, cities.

Why do human beings act? What is the aim they pursue with their actions? Aristotle answers that human beings want to live a good life, to be happy. The good life is one that must satisfy the demands of his being human. Aristotle surveys the commonly held opinions about what the good life consists of. He enumerates three: the pleasurable, the political, and the contemplative. He scrutinises which of the three could satisfy the standards he set; that is, it should be an activity worthy of man and it should be attained through his own efforts. Happiness is a good activity, a virtuous activity. In addition, such activity must be final; it should not be desired in view of something else. The activity must also be complete; that is, it should not lack anything. Finally, it should be perfect; otherwise, man will long for something else.

Evaluating the three commonly held opinions, Aristotle deems that the pleasurable life is not worthy of man, because such a life is more proper to brutes. The political life cannot be the final good; it is not complete, because happiness depends on honor bestowed by other men. Thus, the political life does not depend on the person aspiring for happiness; rather, it hinges on men, who could be fickle-minded in their appreciation of what is honourable. The best life for man, then, is the contemplative life, because it is an activity of the highest faculty of man – his intellect – and the objects of reason are the best of knowable objects. He also claims that contemplation of truth is the most continuous activity in which man can be engaged. He states that such activity is pleasurable and is the end of political life.

The happy life is the virtuous life. Aristotle dedicates the entire *Nicomachean Ethics* to discussing what virtues are and what activities could be considered virtuous. Aware that virtues are forged through interaction with other human beings, he continues the discussion in *The Politics*. However, while the *Nicomachean Ethics* focuses on a certain type of somewhat monastic ethics, he refocuses the discussion in *The Politics* to satisfy the connubial and political dimensions of being human. Thus, the *Nicomachean Ethics* deals with the use of wealth,⁵ while *The Politics* looks at its acquisition. Wealth acquisition is part of Aristotle's discussion of economics or household management. He says that household management includes acquiring and preserving wealth to provide the family and/or the state with life's necessities. He cautions, however, that the primary aim of household management is the attainment of the moral excellence of the members of the household. Hence, wealth acquisition and preservation are activities that should facilitate the attainment of the good life.

3. WEALTH AND THE GOOD LIFE

To live and to live well is what every activity aims at. Living and living well, as discussed above, is not limited to the satisfaction of the demands of biological life. It includes satisfaction of the desires of the spirit, for man is not only a corporeal being. In his substantial unity of body and soul, man needs a modicum of material means to live and live well as man. Wealth should facilitate attaining the good life through practice of the virtues. The proper place of wealth in a man's life is to be a useful good, something desirable for the sake of a greater good – happiness.

Activities related to wealth acquisition and its preservation make man practice virtues. Virtues, for Aristotle, are good habits that make a person good and his actions good. Virtues are acquired through the repetition of the good acts leading to the state of being virtuous. Virtue acquisition demands time and a deliberate decision of the will to pursue the state of virtuosity. A virtuous act lies in the golden mean between excess and defect.

The art and science of wealth acquisition is an arena for the practice of acts that make man virtuous. First, the activities of wealth acquisition and preservation demand prudence. The head of the household must know what activities should yield greater wealth. Prudence also ordains what best possible means to use to yield better results and when to undertake such activities. Aristotle recounts a story about Thales. Accused

⁵ NE, IV 1119b25. Aristotle defines wealth as 'all things whose value is measured by money.'

of ineptitude on affairs of the world, the philosopher proved his detractors wrong by studying the stars. He knew that, by winter, there would be a great harvest of olives. So, long before then, he deposited the little money he had to hire the olive presses at a very low price, because no one bid against him. When the time came for harvesting olives and producing oil and, therefore, demand was heavy, he rented out these olive presses at the rate that he wanted. Consequently, he amassed a good fortune and proved his detractors wrong.

A prudent household manager does not live by the day. He thinks of the morrow. Thus, he engages in activities that will cover not only the basic needs of the day, but also the contingent needs of life. He is aware that the fluctuating value of currency demands that he speculate on the future, so that he will enjoy the needed comforts when he reaches his retirement days. Thus, he not only saves and preserves his present acquired wealth, but also multiplies it.

Wealth is not only preserved, but also multiplied through its prudent use. Thus, man invests the excess of what he basically needs in undertakings that will give him the maximum profit for the wealth invested. In this way, he can provide not only for his material needs, but also for the demands of the spirit. Revenue from his investments enables him to engage in activities that promote leisure.

As wealth is acquired over the long term, so are the virtues. Wealth acquisition, preservation, and multiplication require engaging in honest work that puts into practice the highest faculties of man. The intellect is engaged in deliberating what should be done, why it should be done in a particular way, and how the activity could be carried out with maximum efficiency and effectiveness. The will is also employed to tenaciously bring about that which has been deliberated. Hence, the person who acquires wealth is directly benefited, not only through the multiplication of resources, but also through the perfection of the potencies of his soul. An excellent man desires the maximum return on his investment. Such is the natural consequence of hard work and talents put into practice. Nobody can deny him that right.

Aristotle cautions, however, that wealth accumulation should go along with the demands of living a temperate life and the practice of liberality. Temperance is the virtue that regulates desire for bodily pleasures.⁶ A temperate man 'craves for the things that he ought, as he ought, and when he ought.'⁷ Liberality is the virtue that concerns giving

6 NE, III, 11, 1118b30.

7 NE, III, 12, 1119b18.

and taking of wealth.⁸ A virtuous man gives his money for a noble cause and 'he will give to the right people, the right amounts, and at the right time, with all the other qualifications that accompany right giving',⁹ and he does it with pleasure.

4. WEALTH SHARING

If liberality is a virtue that man must practise, then he must dispose of a certain amount of his wealth. It could be money in excess of what he needs or something saved by not indulging in useless pursuit of pleasure. Since liberality governs the giving and taking of wealth, one cannot practise it if he does not have anything to give. Thus, one must know what activities produce wealth, so he can produce it in abundance.

Wealth is called a useful good, because it should be used. Preserving wealth for its own sake does not make a man happy, because he will be in constant fear of losing it through fortuitous circumstances. Wealth acquired must be shared directly with the family members, because the original aim of wealth acquisition is to provide the needs of life and the family: 'The family is the association established by nature for the supply of men's everyday wants.'¹⁰ Hence, wealth acquisition is part of household management. The household head must provide bread and board; this is the reason family members are called 'companions of the cupboard' and 'companions of the manger'. Aristotle even specifies the type of food that the children should eat. As stated earlier, however, the primary aim of household management is the development of the virtues. The development of virtues demands a certain degree of comfortable living, which means possessing not superfluous things, but the minimum amount of goods needed for virtues to take root. Thus, a modicum of material wealth is necessary to facilitate living and living well.

Money has a social interest attached to it. That is why Aristotle teaches that money ought to be used with restraint and liberality. 'Money does not grow on trees', the saying goes. To acquire and use wealth meritoriously, man cannot work alone. He needs the help of others. Even in antiquity, the business of hunting and tending the land had always been formed around a cooperative endeavor of mutual protection from enemies, whether animals or pillagers. The protection is not only for the acquisition, but also for preservation. Since man cannot produce everything that he needs to survive, he relies on the services and goods

8 NE, IV, 1, 1119b.

9 NE, IV, 1, 1120a.

10 ARISTOTLE, *Politics*, I, 1, 1952a13.

that other human beings produce. Multiplication of wealth takes place in this exchange of goods and services.

5. WEALTH MAXIMISATION VS. PROFIT MAXIMISATION

Should the prudent man maximise wealth or maximise profit? Or should he aim for something beyond wealth maximisation and profit maximisation? Profit maximisation stresses the efficient use of capital resources, but it is not specific with respect to the timeframe over which the profits are to be measured. Do we maximise profits over the current year, or over a longer period? A financial manager could easily increase current profit by eliminating research and development costs and reducing regular maintenance expenses. This mode of increasing profits is clearly not in the best long-run interest of the firm.

In the discipline of financial management, firms must deal with two major factors that are not considered in profit maximisation: uncertainty and timing. On the other hand, the goal of maximising shareholder wealth allows us to deal with the complexities of the operating environment. It takes into account the effects of all financial decisions. For instance, investors react to poor investment or dividend decisions by precipitating the decline in the total value of the firm's stock, and they react to good decisions by pushing up the price of the stock. Good decisions thus create wealth for the shareholder. However, there are some practical problems in pursuing this goal and in using changes in the firm's stock to evaluate financial decisions. The price of the firm's stock may fluctuate for no apparent reason. Over the long run, however, price equals value. Focus should be placed on the effect of a firm's decision on the stock price if everything were held constant. The market price of the firm's stock reflects the value of the firm as seen by its owners, the shareholders, and takes into account the complexities of the real-world risk.¹¹

6. ARISTOTLE AND THE OBJECTIVE OF WEALTH MAXIMISATION

Maximisation of shareholders' wealth is a good thing, because the activity is fulfilling for the person who engages in business. The active engagement in a business activity puts into effect the virtues that a prudent man possesses. A prudent man is circumspect in his acts. He carefully weighs his options before making any decisions. If he has to take a risk in business, he takes a calculated risk, so that he maximises his wealth.

11 David F. SCOTT, Jr., John D. MARTIN, J. William PETTY, and Arthur J. KEOWN, eds., *Basic Financial Management*, 8th Ed., Upper Saddle River, New Jersey: Prentice Hall, 1999, pp. 2-4.

Aside from the virtue of prudence, the person who engages in business acquires and hones a host of other virtues. One of them is the virtue of justice, the virtue regulating the relationship of at least two persons. A man has the right to what is his due. The parties to a contract must first of all abide by the terms stipulated in the contract. Justice requires that what is due must be rendered in the way that it is agreed. Thus, the investor has the duty to hand in the amount that he has promised to render to the business activity that another will manage. In the same way, the seller has to deliver the goods sold under the terms and conditions of the sale. On the other hand, the investor has the right to demand a return on his investment. This could be in the form of profits gained or an explanation for losses sustained. The person who manages the investment has the duty of justice to make the money entrusted to him in a fiduciary capacity grow through prudent handling. This will demand from him tenacity in fulfilling the objectives of the enterprise.

The manager has the duty of justice to render to the owners a proportionate return on their investment. At the same time, the manager has to balance the interests of all the claimants to the business. Within the company, the manager must provide a favorable working environment for the employees. He must give them just compensation and the due benefits, without adversely affecting the interests of the shareholders or the owners. In the external environment or outside the company, the manager must create a favorable relationship with customers, suppliers, governmental agencies, and the immediate community where the company does business.

The shareholders or owners of the company also have a duty to provide the hired managers or agents of the company with adequate compensation for their work. The managers, upon putting their talents and energies to use in pursuit of the corporate goal of wealth maximisation, deserve proper compensation. Some companies allow managers to proportionately share in the profits, which were earned through the use of the managers' skills and ingenuity.

It is true that managers may at times hold their own interest foremost in mind and thus may be unwilling to jeopardise their personal wealth for the sake of the company. In this situation, Aristotle's tenet on temperance in the accumulation of wealth serves as a criterion for action. A prudent man would take calculated risks that do not fully jeopardise his own position. The salaries and fringe benefits that he enjoys extend to his family; so he must balance his personal interest and the corporate interest to ensure that he does not lose his position in the company.

Creating greater profit increases the capital that can be invested for other business pursuits that will provide jobs and employment for the rest of the members of the community. Directly, such endeavor benefits not only the stockholders, but their families and the families of their employees as well. Indirectly, the rest of the members of the community benefit through the improved goods and services that are available. As Pope John Paul II has pointed out:

The degree of well-being which society today enjoys would be unthinkable without the dynamic figure of the businessperson, whose function consists in organizing human labor and the means of production so as to give rise to the goods and services necessary for the prosperity and progress of the community.¹²

In addition, the contribution to the government coffers through individual and corporate taxes would lead to the improvement of facilities and delivery of services of the government offices.

Wealth shared can have its multiplier effect through the creation of small- and medium-scale industries. The savings derived from employment could provide the capital needed to establish a small backyard industry or a source of livelihood that could be attached to the original source of wealth, as in the case of San Miguel Corporation, a conglomerate based in the Philippines, in the early 1990's.

Not only should the manager tame his unbridled desire for personal gain, he also has to help the owners temper their 'greed'. He cannot sacrifice short-term benefits to the detriment of greater market share, customers' patronage, and public perception of the corporation he is helping to create a niche in the market.

7. BEYOND SHAREHOLDER WEALTH MAXIMISATION: ETHICAL BEHAVIOUR AND CORPORATE SOCIAL RESPONSIBILITY

While it is clear that this ethical perspective could easily be applied to individuals, questions arise when dealing with corporations: *Do corporations have a conscience that will recriminate them for unethical practices or do corporations exist simply for profit making?* Should business practices be ruled by ethical norms? This leads to another question: Do corporations exist as beings and should they be held accountable for their deeds or misdeeds?

12 Excerpt quoted in Lynn Sharp PAINE, 'Leading for Integrity: Corporate Purpose and Responsibility,' *Harvard Business School Notes*, 9-394-144, pp. 8-9.

7.1. THE CORPORATION AS LEGAL PERSON AND MORALLY RESPONSIBLE PERSON

Corporations do not physically exist as beings in the same way that human persons exist and are held accountable for their actions. Business establishments are moral entities that are run, governed, and managed by groups of persons whose decisions impact on the welfare of the people whom they serve. These persons, acting as a unit, have clear moral responsibilities within and outside the business organisation. Corporations are legal persons. But it is ultimately the human personalities within corporations – particularly their top management – who must imbue their businesses with ethical philosophies and practices.¹³

The foundation of corporate social responsibility is personal responsibility. A responsible person is law-abiding. He obeys foremost the laws written in his heart, obedience to which spells fulfillment or frustration. For a law that forbids, one avoids what is forbidden; and for a law that bids, one pursues what should be done. A responsible person makes good use of his freedom and rejects the temptation to succumb to pressures that will make him curb the moral demands of his job.

In certain respects, concepts and functions normally attributed to persons can also be attributed to organisations made up of persons. Managers and researchers often project goals, economic values, strategies, and other such personal attributes to the corporate level.

The pursuit of profit and self-interest need not be pitted against the demands of moral responsibility. Moral demands are viewed as containments – not replacements – for self-interest. Thus, corporations are moral agents.¹⁴ Corporations, through their managers, are accountable to the consumers whom they must satisfy, together with a host of stakeholders. Within the company, managers have to be responsible towards their investors' interest, as well as their employees' and their families' welfare. Outside the company, managers must be responsible towards the firm's creditors, suppliers, customers, the community in which the company operates, and the society at large. Modern business practices have moved beyond the narrow confines of satisfying the capitalists' unbridled desire for profit. Managers have slowly become aware that their business activities must go beyond profit maximisation. They have

13 Roy CULPEPER, 'The Evolution of Corporate Responsibility: From Unbridled Markets to Mature Capitalism', Address to the Canadian Centre for Ethics and Corporate Policy, Toronto, 2 December 1998.

14 Kenneth E. GOODPASTER and John B. MATHEWS, Jr., 'Can a Corporation Have a Conscience?' *Harvard Business Review*, January-February 1982.

a social responsibility.¹⁵ Corporations can be held accountable for their misdeeds.

7.2. NEED FOR ETHICAL CORPORATE BEHAVIOUR

Business errors can be forgiven. Ethical errors, on the other hand, tend to end careers and terminate future opportunities. Ethical behaviour is congruent with the goal of maximisation of shareholder wealth. Unethical behaviour eliminates trust and, without trust, business firms cannot interact.

Most damaging to a business is loss of the public's confidence in its ethical standards. The ethical scandal involving insider trading at Drexel, Burnham, Lambert brought down the firm. In 1991, the ethical scandal involving attempts by Salomon Brothers to corner the Treasury bill market led to the removal of its top executives and nearly put the company out of business.¹⁶ Four of its top-level executives failed to take appropriate action after learning of the unlawful activities on the government-trading desk. Company lawyers found no law obligating the executives to disclose the improprieties. However, the executives' delay in disclosing and failure to reveal their prior knowledge prompted a serious crisis of confidence among employees, creditors, shareholders, and customers. The executives were forced to resign, having lost the moral authority to lead. Their ethical lapse compounded the trading desk's legal offenses, and the company ended up suffering losses – including legal costs, increased funding costs, and lost business – estimated at \$1 billion.

In 1987, Beech-Nut Nutrition Corporation pleaded guilty to selling adulterated and misbranded juice. Two years and two criminal trials later, its Chief Executive Officer pleaded guilty to ten counts of mislabeling. The total cost to the company, including fines, legal expenses, and lost sales, was an estimated \$25 million.¹⁷

Other companies eventually suffered financially from favoring economic responsibilities at the expense of social duties. These companies include Bausch & Lomb, whose unscrupulous product modifications and pricing policies resulted in a major financial slump in the mid-1990s, and Mitsubishi, whose discriminatory hiring and sexual harassment policies undermined its legitimacy in the U.S.A.¹⁸

15 Milton FRIEDMAN, 'The Social Responsibility of Business Is to Increase its Profits,' *The New York Times Magazine*, 13 September 1970, pp. 32-33 and 122-126.

16 SCOTT, *et al.*, *Basic Financial Management*, p. 21.

17 PAINE, 'Managing for Organizational Integrity', p. 108.

18 Valerie SWAEN and Isabelle MAIGNAN, 'Will the Internet Encourage More Responsible Business? A Strategic Imperative', *European Business Forum*, Issue 4, Winter 2000.

Business can and should play a role beyond profit maximisation. Beyond the question of ethics is the question of corporate social responsibility. In general, corporate social responsibility means that a corporation has responsibilities to society beyond the maximisation of shareholder wealth. The corporation answers to a broader constituency than shareholders alone.¹⁹ The social responsibility of a business is indeed to increase its profits, because businesses are established to create profits that will enable the corporation to be sustainable. However, profit cannot be attained at any cost whatever. There must be a balancing act of the interests of all those involved in a business enterprise.

7.3. BALANCING THE INTERESTS OF THE CORPORATION'S CONSTITUENCIES OR STAKEHOLDERS

Corporations operate within a web of complex and competing relationships that demand the manager's attention. The managerial decision-making process requires an understanding of the following constituencies of a corporation and their expectations:

Customers. Customers have a primary claim to corporate attention. They expect reliable products and services, fair value, good service, and accurate advertising. If customer expectations are not satisfied, the corporation suffers long-term and short-term damage to its reputation.

Employees. Employees expect not only fair pay, but also conditions such as equal opportunity, good working environment, financial security, personal privacy, freedom of expression, and concern for their quality of life. Loyal employees perform well. A corporation must weigh employee benefits vis-à-vis the need to produce profits to sustain its existence.

Communities. Corporations touch the lives of the people in the communities where they operate. They are expected to be concerned with the local needs and problems, such as schools, traffic, pollution, and health, and to explain their activities to the members of the community.

Society at Large. The corporation's first responsibility to society is to maintain its economic and financial viability as a producer of goods and services, as an employer, and as a creator of jobs.

Suppliers. Suppliers expect fair purchasing practices and prompt payment.

Shareholders. Shareholders provide the capital and make the corporation possible. Shareholders expect a return that will encourage the continuation of investment.²⁰

19 SCOTT, *et al.*, *Basic Financial Management*, p. 21.

20 The Business Roundtable's Statement on Corporate Responsibility 1981, cited by PAINE, 'Leading for Integrity', *Harvard Business School Notes*, 9-394-144, p. 5-6.

The corporation's decision-making and management process should weigh the impact of decisions on the different constituencies and should balance the interests of the different constituent interests. Resolving the differences involves compromises and trade-offs. All sides should be heard. However, it would not be possible to satisfy all the corporation's constituencies, since there may be competing claims. For example, a company is considering closing a plant. For shareholders, customers, and society at large, closing a plant could pave the way for the more economical production of better products in a new plant at another location. But employees and the community might object to closing the plant, because of the loss of jobs.

Balancing the shareholders' expectations of maximum return against the interests of the other constituencies is a challenge confronting corporate management. The shareholder must receive a good return, but the legitimate concerns of other constituencies must also be given due consideration.

As a result, some managers believe that the primary role of corporations is to help meet society's legitimate need for goods and services, and to earn a reasonable return for the shareholders in the process. They believe that by balancing the legitimate claims of all its constituents, a corporation will best serve the interest of its shareholders.²¹

Thus, responsible managers and/or persons in management face many hard choices each day, choices upon which the welfare of many others depends. Due to his social nature, the decisions of the manager affect and exert an influence on the lives of others. However, decisions taken solely for the benefit of the owner would harm the social commitment of wealth. Central to the concept that work is a vocation and not simply a career or a job is the commitment to the public good, and not simply the private good.²²

Consciousness of the complexities and variety in the levels of the stakeholders' satisfaction is shown through the corporation's managers. Business and finance have a duty to be faithful trustees of the resources at their disposal. However, no one can ever own capital resources absolutely or control their use without due regard for others and society as a whole. Because of the interdependence of work and the insufficiency of a corporation or an individual to provide everything that he needs, he relies on the cooperation of the entire community in which he operates.

21 *Ibid.*

22 U. S. Catholic Bishops, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U. S. Economy*, Washington: National Conference of Catholic Bishops, 1986, ¶ 111.

Resources created by human industry are also held in trust. Owners and managers have not created this capital on their own. They have benefited from the work of many others and from the local communities that support their endeavor.²³

7.4. CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) embraces an understanding that everything a company does has some effect either inside or outside the company, from customers and employees to communities and the natural environment. CSR encompasses four distinct areas:

- The Environment
- The Workplace
- The Community
- The Marketplace

Within these four areas, companies are able to make a difference by conducting specific programs and becoming involved in monitoring and changing the effects of their operations. Thus, 'one of the most important socially responsible things a business can do is be profitable'.²⁴

Companies have experienced a range of bottom-line benefits from the practice of corporate social responsibility, as shown by the results of the following studies:

- A recent longitudinal Harvard University study found that 'stakeholder-balanced' companies showed four times the growth rate and eight times the employment growth when compared to companies that are shareholder-only-focused.
- Similarly, a study by the University of Southwestern Louisiana entitled 'The Effect of Published Reports of Unethical Conduct on Stock Prices' showed that publicity about unethical corporate behavior lowers stock prices for a minimum of six months.
- Environics International Ltd., in cooperation with The Prince of Wales Business Leaders Forum, and The Conference Board conducted a 1999 landmark study named the 'Millennium Poll'. It surveyed 25,000 citizens in 23 countries regarding

23 *Ibid.*

24 Alistair C. PING, 'Responsible for What? A Guide to Corporate Social Responsibility', September 1996, www.insight-works.com/Articles/%20Corporate_Social_Responsibility/Responsibleforwhat.htm.

corporate social responsibility. It revealed that 90% of people surveyed want companies to focus on more than profitability.²⁵

8. GAINING COMPETITIVE ADVANTAGE THROUGH CORPORATE SOCIAL RESPONSIBILITY

The biggest reason for investing in corporate social responsibility is this: to gain competitive advantage. The highly competitive marketplace makes it difficult for a company to make large profits unless it has a method of differentiating itself. Corporate social responsibility offers the company a method of differentiation. Good reputation entices shareholders to invest, customers to buy, and the best and brightest job candidates to apply for employment. A good reputation cannot easily be emulated by upstarts or less civic-minded competitors.

The following examples show how competitive advantage can be gained through corporate social responsibility:

The Co-operative Bank, plc is one of the most innovative banks in the United Kingdom. It has gained a reputation as a leader in corporate social responsibility. The company is recognized for its (1) strong ethical investment policy statement; (2) social auditing practices; and (3) ethical marketing strategies. The bank's 14-point ethical investment policy outlines the company's position on social responsible investing, including its decisions not to finance weapons deals to oppressive governments, and not to invest in companies involved in tobacco, the fur trade, animal testing or exploitative factory farming.²⁶

Natura Cosméticos, based in Brazil, is recognized as a leader in corporate social responsibility in Latin America for its commitment to the communities in which it operates, for its creation of an empowering workplace, and for its support of human rights issues locally.²⁷

Starbucks Coffee Co., a Seattle-WA based company, has established a wide range of initiatives that benefit employees, communities and the environment, while simultaneously achieving rapid financial growth.²⁸

25 Business for Social Responsibility, 'Introduction to Corporate Social Responsibility', 2001, <http://www.bsr.org/>.

26 *Ibid.*

27 *Ibid.*

28 *Ibid.*

9. FROM CORPORATE SOCIAL RESPONSIBILITY TO CORPORATE GOVERNANCE

Beyond corporate social responsibility is corporate governance. It is broadly defined as the combination of laws, regulations, listing rules, and voluntary private sector practices that enable the corporation to:

- Attract capital,
- Perform efficiently,
- Achieve the corporate objective, and
- Meet both legal obligations and general societal expectations.²⁹

In its most comprehensive sense, corporate governance includes every force that bears on the decision-making of the firm. It encompasses:

- Control rights of stakeholders,
- Contractual covenants and insolvency powers of debt holders,
- The commitments entered into with employees, customers, and suppliers,
- The regulations issued by government agencies, and
- The statutes enacted by law-making bodies.³⁰

The goal of corporate governance is to find a way to maximise wealth creation over time, in a manner that does not impose inappropriate costs on third parties or on society as a whole. It aims at maximising wealth creation to the extent that is compatible with the overall interests of society. Inappropriate costs include agency costs imposed on investors as reflected, for example, in excessive pay for the chief executive officer and externalised costs on society at large, like pollution and criminal behaviour. An ineffective system of corporate governance is the use of power without a level of accountability sufficient to ensure that it is exercised to maximise wealth creation.³¹ Failures in corporate governance can result in overly risky investments, abuses, and outright theft by management, expropriation of outside shareholders and creditors by controllers, financial distress, and bankruptcy.³²

Effective corporate governance promotes the efficient use of resources within both the company and the larger economy. It assists companies and economies in attracting lower cost investment capital by improving both domestic and international investor confidence that assets will be

29 Holly J. GREGORY, 'The Globalization of Corporate Governance,' *Global Counsel*, 2002.

30 Kenneth SCOTT, Stanford Law School, March 1999.

31 Robert A. G. MONKS, 'Corporate Governance in the Twenty-First Century: A Preliminary Outline,' 2002, p. 2.

32 Cally JORDAN, 'Corporate Governance in Asia and International Capital Markets,' World Bank Institute, 13 October 2000.

used as agreed. It helps in making sure that the companies comply with the laws, regulations, and expectations of society. It is closely related to efforts to reduce corruption in business dealings.³³

Governance should focus on performance and competitiveness. Its objective must be to minimise the agency costs inherent in any system where the people who provide the capital hire someone else to manage their property. The interests of the owner and manager will always vary, and at least some of the time those interests will conflict. A well-governed corporation is one in which the interests of the owner and the manager are aligned to as great a degree as possible, thus providing optimal efficiency and profitability.³⁴

10. THE OECD PRINCIPLES OF CORPORATE GOVERNANCE

The Organisation for Economic Cooperation and Development (OECD) Principles of Corporate Governance reflect the broad consensus reached by the twenty-nine OECD member nations with regard to fundamental issues of corporate governance. They represent the first intergovernmental accord on the common elements of effective corporate governance. The OECD Principles of Corporate Governance build on four core standards: fairness, transparency, accountability, and responsibility:

Fairness. The OECD Principles expand on the concept of fairness with two separate principles:

- The corporate governance framework should protect shareholders' rights (OECD Principle I).
- The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights (OECD Principle II).

Principle I recognises that shareholders are property owners and, as owners of a legally recognised and divisible share of a company, they have the right to hold or convey their interest in the company. The principle also recognises that shareholders have certain participatory rights in key corporate decisions, such as the election of directors and the approval of major mergers or acquisitions. Governance issues relevant to these participatory rights concern voting procedures in the selection of directors, use of proxies for voting, and shareholders' ability to make

33 www.Lawdepartment.net/global, 'Steering Clear of Bribery', *EC*, 2000, V, (4), 37.

34 MONKS, 'Corporate Governance in the Twenty-First Century', p. 9.

proposals at shareholders meetings and to call extraordinary shareholders meetings.

According to Principle II, the legal framework should include laws that protect the rights of minority shareholders against misappropriation of assets or self-dealing by controlling shareholders, managers, or directors. Examples include:

- Rules that regulate transactions by corporate insiders and impose fiduciary obligations on directors, managers and controlling shareholders.
- Mechanisms to enforce those rules (for example, the ability of shareholders to bring a claim on behalf of the company in certain circumstances.)

Transparency. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company (OECD Principle IV). This principle recognises that investors and shareholders need information about the performance of the company (its financial and operating results), as well as information about corporate objectives and material foreseeable risk factors to monitor their investment. Financial information prepared in accordance with high-quality standards of accounting and auditing should be subject to an annual audit by an independent auditor. This audit provides an important check on the quality of accounting and reporting. Information about the company's governance, such as share ownership and voting rights, the identity of board members and key executives, and executive compensation, is also important to potential investors and shareholders and a critical component of transparency.

Accountability. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders (OECD Principle V). This principle implies a legal duty on the part of directors to the company and its shareholders. As elected representative of the shareholders, directors are generally held to be in a fiduciary relationship to shareholders and to the company, and have duties of loyalty and care that require them to avoid self-interest in their decisions and to act diligently and on a fully informed basis. Generally, each director is a fiduciary for the entire body of shareholders and does not report to a particular constituency. As the board is charged with monitoring the professional managers to whom the discretionary operational role has been delegated, it must be sufficiently distinct from management to be capable of objectively evaluating it.

Responsibility. The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises (OECD Principle III). This principle recognises that corporations must abide by the laws and regulations of the countries in which they operate; on the other hand, every country must decide for itself the values it wishes to express in law and the corporate citizenship requirements it wishes to impose. Outside of the laws and regulations, corporations should be encouraged to act responsibly and ethically, with special consideration of the interests of stakeholders and, in particular, employees.³⁵

11. THE CASE OF ENRON CORPORATION

The case of Enron Corporation illustrates the adverse effects on a corporation's stakeholders of the lack of ethical standards, the absence of corporate social responsibility, and poor corporate governance practices. The managers and executives benefited at the expense of the shareholders and society at large.

The following excerpts from *The Asian Wall Street Journal* provide a background on the case of Enron Corporation:

Enron Corp. rewarded many of its key executives with unusual compensation packages that included lavish equity stakes in business units and bonuses valued at tens of millions of dollars, even as the units they ran piled up losses. The packages, outlined in filings with the U.S. Securities and Exchange Commission, shed new light on how Enron's former executives might have profited at the company's expense. Many corporations use both equity stakes and bonuses to encourage strong performance by their executives. But analysts said those handed out by Enron were unusually large and weren't sufficiently tied to long-term performance.³⁶

A series of internal documents show that Enron Corp. knew at least a year ago and long before it filed for bankruptcy protection in December 2001 that its portfolio of foreign assets had lost as much as half of the \$6.15 billion value shown on Enron's books at the time. Typically, a company would be compelled to account for such a big drop in the value of assets by taking write-downs. Company filings with the SEC in 2001 don't show that such write-downs occurred. Many of those assets were pledged to

35 <http://www.oecd.org/daf/governance/principles.htm>.

36 Jason LEOPOLD and Jessica BERTHOLD, 'Enron's Executives Received Sizable Equity Stakes, Bonuses', *The Asian Wall Street Journal*, 18 March 2002.

the controversial off-balance-sheet partnerships that Enron used to manage debt, boost earnings and raise cash to reinvest.³⁷

Enron Corp. and at least two other power sellers combined to profit by using false information to resell extra power during California shortages in 2000, according to internal Enron memos. Enron's trading unit obtained the power from utilities outside California that couldn't sell power without a request from within the state, according to the memos – benefiting those suppliers. Then Enron would sell the excess power the next day to California's perennially power-needy system operation, reaping big profits for energy that it wasn't entitled to hold in the first place.³⁸

Enron filed for U.S. bankruptcy-law protection in December 2001 after disclosures it hid mountains of debt from public view in off-the-books partnerships. Arthur Andersen LLP was indicted in March 2002 on a single charge of obstructing justice after disclosing it had shredded tons of Enron-related documents.³⁹

12. CONCLUSION

What is the proper objective of business? Is it the maximisation of profit or the maximisation of shareholder value? Should business go beyond the maximisation of profit and the maximisation of shareholder value? Shareholder wealth maximisation or profit maximisation is a proper objective of business. However, it is not the ultimate end of business. Using the Aristotelian parlance, wealth acquisition is only a useful means to an end. Clearly, Aristotle posits that the end of wealth acquisition is to provide the family and/or the state with life's necessities. The excesses committed in pushing the ideal of profit for profit's sake is a clear manifestation of having mistaken the means for an end. Translating Aristotelian ideals to the corporate world, profits are an indispensable means for the creation and provision of valuable goods and services and the promotion of respect for human beings through the employment opportunities offered.⁴⁰ The bottom line is that wealth acquisition has ends that are not solely for the satisfaction of the individual; rather, from its origin it has a social responsibility attached to it, that is, to serve the society of which it is a part. That society includes the corporation's stakeholders or constituencies: customers, employees, communities,

37 Rebecca SMITH and Kathryn KRANHOLD, 'Enron Knew of Decline in Foreign Assets', *The Asian Wall Street Journal*, 7 May 2002.

38 Kathryn KRANHOLD and Rebecca SMITH, 'Enron Had Help, Memos Say', *The Asian Wall Street Journal*, 10–12 May 2002.

39 Alexei BARRIONUEVO and Jonathan WELL, 'Andersen Knew of Potential Problems at Enron', *The Asian Wall Street Journal*, 10–12 March 2002.

40 Yotaro KOBAYASHI, 'A Message to American Managers', quoted in PAINE, 'Leading for Integrity', p. 12.

suppliers, and shareholders. The corporation's owners and managers will have to balance the interests of the different stakeholders. This will involve resolving differences through compromises and trade-offs.

Thus, the all-encompassing objective of the business should be good corporate governance. Good corporate governance maximises shareholder wealth creation without imposing inappropriate costs on society as a whole. One of the core standards of good corporate governance is responsibility. Responsibility refers to corporate social responsibility. Corporate social responsibility requires corporations to act responsibly and ethically, taking into account the interests of all stakeholders – customers, employees, communities, suppliers, and shareholders. And one of the most socially responsible things a business can do is to be profitable. Profits will enable the corporation to be sustainable. However, profits cannot be attained at whatever cost. There will always be a need to balance the interests of all those involved in the business enterprise, its stakeholders.

San Miguel Corporation, the largest publicly listed food, beverage, and packaging company in the Philippines, is an example of a company that has accomplished a lot through good corporate governance, corporate social responsibility, and high ethical standards. Founded in 1890 as a brewery, the company has over 100 facilities in the Philippines, Southeast Asia, China, and Australia. San Miguel's flagship product, San Miguel Beer, holds over 90% share of the Philippine market. It is among the world's largest selling beers and among the top three brands in Asia. Social responsibility is integral to San Miguel's character. Thus, the company supports initiatives aimed at improving the quality of life of Filipinos, with focus on entrepreneurship, education, and the environment. This company shows that it is possible to combine shareholder wealth maximisation, corporate social responsibility, and good corporate governance.

HUMAN PERFECTION AS THE PROPER AIM OF BUSINESS MANAGEMENT

FRANCIS GIKONYO WOKABI

1. INTRODUCTION

Business has become one of the defining features of the contemporary world. Each person in our society today is directly or indirectly involved in business operations and calculations as an actual or potential producer, distributor or consumer of some good or service. Whole families, communities and nations cannot escape the all-inclusive grasp of business. They are regarded in the dense business network as partners, competitors or customers. Accompanying these relationships are expectations, obligations, attitudes and values that continue to affect other spheres of human life.

In this essay, I regard business as one form of work and maintain that the main purpose of work in general – which I identify as enhancement of human perfection – should also be the proper aim of business. Utilising findings of research carried out in Kenya regarding the relationship between work and well-rounded human development, I argue that business management needs to transcend a fixation with material value and embrace human perfection as its main aim. ‘Human perfection’ refers to the ideal of human betterment, exemplified by the improvement of human vegetative and sensitive capacities, as well as the actualisation of such essential human capacities as rationality, sociality, creativity and morality.

The popular meaning of business is ‘all activities involved in the production of goods and services for profit to satisfy consumer needs and wants’.¹ This essay critiques business as practised in line with this definition. It calls for a redefinition of business as ‘activities involved in the production and distribution of goods and services for satisfaction of human needs and enhancement of human well-being’. Business practised in the light of this definition attracts material and non-material rewards as a deserved by-product of the initiative to provide genuine value to customers. Business management refers to the systematic organisation, integration and coordination of resources in order to achieve business objectives.

While acknowledging that financial performance has its rightful place in business operations, this essay perceives an obsession with financial gain, at the expense of other essential spiritual (non-material) values, as degrading to human beings and injurious to business interests in the long run. Consequently, it maintains that both material and spiritual values need to be carefully harmonised for business activities to be both sustainable and ennobling. The harmony demands that a business culture that integrates criticality, morality and entrepreneurial values be cultivated. The essay concludes by offering some suggestions regarding how such a culture can be developed.

2. THE PREVALENCE OF MONEY-MINDEDNESS AMONG KENYANS

Work has been reduced to mere ‘money-making’ activities in contemporary Kenyan society.² This preoccupation with material gain alone is disabling and alienating, since it neglects the spiritual dimension and benefits of work. The integral development of human persons as the greatest benefit and, indeed, the main purpose of work has been neglected. The prevalence of money-mindedness among Kenyans is aptly captured in the following press media report: ‘When a Kenyan is born, he has thumped into his head very early in life that the most important thing in life is money. He is taught to defy poverty (and often hard work) and to live by the creed that it is better to be dead than to be poor.’³

After interviewing eighty-one respondents belonging to diverse occupational, ethnic, religious and educational backgrounds, it was found that over 70% of them prioritised material benefits and particularly money as the only purpose of work. These respondents also tended to dichotomise intellectual and manual work, regard work as a necessary evil or curse, rationalise and tolerate work-related vices, and avert exertion. Fewer than 30% of the respondents, however, transcended the materialistic view of work. They regarded work as an indispensable means to the satisfaction of the material and spiritual needs of the entire human being. Manual and intellectual work were regarded as complementary. These respondents viewed work as both a right and a duty. They identified with work-related virtues like honesty, fair-mindedness and industriousness.⁴

The preoccupation with material gain alone in the workplace is manifested in the following ways: corruption, obsession with acquisition

2 Francis WOKABI, *The Place of Work in Human Perfection, with Special Reference to Karl Marx's Concept of Alienated Labour*, M.A. Thesis, Kenyatta University, 2001.

3 *The Sunday Nation* (Nairobi), 20 December 1998, p. 5.

4 WOKABI, *The Place of Work in Human Perfection*, pp. 65–84.

of wealth using illegal and/or immoral means, regular and unnecessary absenteeism, obsession with salary increments unaccompanied by initiatives to enhance generation of wealth, and the tendency to slight volunteer work. Other indicators include 'the culture of sloth, dependency and selfishness', as well as the tendency to use shortcuts to goal achievement rather than honest and hard work.⁵

Money-mindedness is not merely a problem for the poor and lowly members of society. It has infected the very people who ought to be role models for Kenyans. Our Members of Parliament, who should be the pacesetters for other Kenyans, recently voted themselves huge salaries, allowances and grants for buying expensive cars. There was an outcry against this move from many quarters. It was reported that the Members of Parliament were ready to block 'other budgetary measures, including money for free education and for health care', unless free cars for themselves were also included in the budget.⁶ This reveals the selfishness and indifference to the needs of others that underlie money-mindedness. It undermines service and the good will that should characterise human relations. It is in this light that I consider President Mwai Kibaki's appeal to Kenyans to return to the culture of industriousness, integrity and dignified interdependence within a 'working nation' timely and well-intentioned.⁷

In this essay, business is regarded as a form of work within which any of the above orientations towards work can manifest itself. When business is perceived solely as a profit-making exercise, the human person is degraded and essential human qualities fail to be developed. This is what Karl Marx referred to as 'alienation'.

3. ALIENATION

In the process of transforming human and natural resources into the goods and services required for human use, workers express their mental powers, which are internal to them. They use their intellectual skills and judgement, guided by a conscious will. According to Marx, this externalisation of human powers further leads to objectification, that is, the process of converting a mental reality into a physical reality existing outside the mind.⁸

5 *The Daily Nation* (Nairobi), 2 June 2003, p. 8.

6 E. OMARI, 'MPs Vote Themselves Sh 735m for Free Cars', *The Daily Nation* (Nairobi), 27 March 2003, p. 1.

7 *The Daily Nation* (Nairobi), 2 June 2003, p. 11.

8 KARL MARX, *Early Writings*, Middlesex: Penguin Books, 1974, p. 324.

The product of work, be it a good or a service, has within it objectified human powers. Since the objectified powers were once part and parcel of the worker, objectification involves some kind of separation of human powers from the worker. Marx believed that workers should have control over their own activity, have control over the product of their activity, be served by the product of their own activity, and improve their condition and that of their fellow human beings through work.

Marx saw in classical capitalism the pursuit of profit-making as alienating and dehumanising. Work lost all fulfilment. This alienation took the following manifestations:

- a. The worker became preoccupied with survival. He regarded 'the maintenance of his individual existence as the aim of his activity'.⁹ The provision of basic needs thus became the sole motivation for work. This made the worker remain at the level of animal existence.
- b. The worker became spiritually crippled. He lost confidence in him/herself and no longer regarded him/herself with dignity: 'The more value he creates, the more valueless, the more unworthy he becomes'.¹⁰
- c. The worker became outer-directed: 'His exertion is, therefore, not voluntary but forced, it is forced labour.'¹¹ Supervision, threats and punishment became the means of making people work. Without physical or other compulsion, work was shunned like the plague.¹²
- d. The workers felt enslaved while at work. Work was thus regarded as too costly a sacrifice. The worker 'feels himself out of work – at home when not working'.¹³ They feel free in their animal functions like eating, drinking and procreating, but not at work. These animal functions are turned into final and exclusive ends.
- e. The workers valued having, that is, the acquisition of material things as opposed to being, that is, the cultivation of mental faculties, for instance, reasoning and moral judgement. Their view is that 'an object is only ours when we have it, when it exists for us as capital . . . when we directly possess it'.¹⁴

9 MARX, *Early Writings*, p. 269.

10 MARX, 'Economic and Philosophic Manuscripts of 1844', in *Karl Marx and Frederick Engels: Selected Works*, Vol. 3, London: Lawrence and Wishart, 1975, p. 273.

11 MARX, *Early Writings*, p. 326.

12 *Ibid.*

13 *Ibid.*

14 MARX, *Early Writings*, p. 351.

- f. Money and wealth were regarded as ends in themselves. People were reduced to servants of money. Money was endowed with human traits and made an object of human adoration since 'everything you are unable to do, your money can do for you'.¹⁵
- g. Antagonism and competition developed among workers. Instead of workers feeling that they are partners in the same task and purpose, they regarded one another with suspicion and hostility. Instead of cooperating, they competed against one another, regarding each other as obstacles. Consequently, human beings were regarded as mere means to selfish interests.

Alienation refers to the state of being of a human person characterised by lack of realisation of human potentialities, namely rationality, sociality, creativity, morality and individuality. It has to do with disharmony between a person's actual existence (i.e. his/her thoughts, attitudes, beliefs and actions) and the human essence (i.e. the distinctive characteristics of human persons enumerated above as human potentialities). Alienated individuals may employ their mental and physical effort in a particular task but such effort is merely alienated labour. This means that the effort involved in production does not yield fulfilment for the workers; instead, through it, workers create conditions and objects that oppose their well-being. Workers thus become estranged or separated from their exertion, the work process, themselves and their fellow human beings.

Making material acquisition the sole aim of any form of work is a manifestation of alienation, for the following reasons:

- a. It manifests a sole concern for economic survival. This is opposed to the wider concern for the survival of humanness, i.e. the survival of the distinctive characteristics of human persons. This is exemplified by the fact that those who hold the materialistic view of work can most likely choose to make money without caring whether their character and dignity as human persons are sacrificed in the process. To this extent, the materialistic view of work manifests alienation, in that the worker is separated or even distanced from the realisation of his/her humanness.
- b. It predisposes the worker to certain evils, for instance, corruption. A worker who is solely concerned about making money is easily susceptible to corruption, that is, the tendency to use one's power or position to gain rewards unduly and illegally. The acquisitive mania exemplified in land grabbing and bribery in Kenya is a case in point. Such mania is not

15 *Ibid.*, p. 361.

consistent with morality. The selfishness that motivates it spells doom to the general human well-being. This approach to work alienates the worker from realising the significant human feature of morality.

- c. It tends to make human beings regard one another as mere means to moneymaking. An employer who views work solely as the means to material acquisition tends to disregard the humanity of employees. Such employees are, consequently, manipulated and mistreated as the employer attempts to maximise profits. This leads to disharmony among human beings. Injustice breeds hate, bitterness and enmity. Human beings are alienated from one another. Their sociality is undermined.¹⁶

In order for work to ennoble human beings or even de-alienate them, it should approximate the following characteristics: expenditure of effort, purposefulness, production of goods and services, transformation of objects as well as subjects of work, continuity, remuneration, morality and expression of humanness. Work can, therefore, be defined as purposeful human activity involving sustained physical and/or mental efforts geared towards the production of goods and services, through which activity human beings express and realise their humanness and personhood, with or without remuneration.

In the light of this definition, workers can attempt to evaluate the role of work in their development by attempting to answer the following questions:

1. What is the purpose of my activity? What must I do to achieve this purpose successfully?
2. How sustained are my mental and physical efforts? What is the quality of my physical and mental input?
3. What goods and/or services does my work produce? What contribution do these goods and/or services make to human well-being?
4. What kind of a person do I become through my work? Does my work humanise or dehumanise me?
5. How am I remunerated? Do I deserve the financial and non-financial rewards that I receive or fail to receive from my work?

4. WORK AND HUMAN NATURE

In order to appreciate the purpose of work in human life, let us consider two views regarding human nature as presented by W. Norris Clarke.¹⁷

4.1. THE HUMAN BEING AS A MICROCOSM

The conception of the human being as a microcosm or a small cosmos is integrative or unitary. The human being is regarded as partaking of two extremes – matter and spirit – and integrating them into one. The universe has two disparate dimensions – matter and spirit – which find a conscious union in the human being.

According to Clarke, the world of matter is gathered together in the highest form in the human body, where it is integrated with the world of spirit in the form of mind. The human being is thus seen as a ‘nodal point’ that unifies the universe. Human beings mediate between matter and spirit, expressing the unity of the cosmos.¹⁸

According to Vincent Cooke, human beings can be seen as objects as well as subjects. As objects, an account of human beings can be given in terms of observational terms, for instance, weight, colour, size, volume, and so on. Insofar as they have these characteristics, human beings have a spatiotemporal body and are material.¹⁹ Human beings, however, also do things; they are subjects. They think, hope, love, talk, work, see, and hear, feel pain and so forth. Insofar as human beings are subjects, they have souls. The soul is a capacity for action.²⁰

In order to do anything, one must have the ability to do it: ‘No one can perform an action in general; it is always this or that specific kind of action. In order to perform a specific kind of action, one must have a specific kind of ability.’²¹ As subjects, human beings have specific abilities or capacities. When a human being thinks, speaks, loves, believes and chooses, he/she is using capacities that belong to the mind. The mind is a capacity that human beings have, enabling them to acquire or learn further capacities or concepts. The human mind governs the spiritual dimension of human life. The spiritual dimension is concept governed. Mental activities have to do with ideas or concepts.

17 W. NORRIS CLARKE, S.J., ‘Living on the Edge: The Human Being as Frontier Being and Microcosm’, *International Philosophical Quarterly* 36 (1996), pp. 183–200.

18 *Ibid.*, p. 188.

19 VINCENT M. COOKE, S.J., ‘Human Beings’, *International Philosophical Quarterly* 26 (1986), p. 271.

20 *Ibid.*, p. 274.

21 *Ibid.*, p. 273.

The human being as a microcosm unites the world of objects and the world of subjects. It also joins the world of percepts (sensible world) and the world of concepts (mental world). In the human being, the knower and the known meet.

The conception of the human being as a microcosm can be traced back to Aristotle, who regarded the human being as the composite of matter and form. In *De Anima*, Aristotle regards the human being as having vegetative, sensitive, and rational capacities.²²

As beings manifesting vegetative powers, human beings are living beings. They are capable of self-motion, nutrition, growth, repair and reproduction or self-replication. At this level, human beings have basic necessities for food, drink and sex. These needs are survival needs whose object is to continue the existence of human beings and the human species. Material needs are satisfied using material things.

As beings manifesting sensitive powers, human beings are animals. They are capable of sense experiences and caring for their offspring. At this level, human beings have basic necessities for safety and belonging. They seek to protect themselves from harm and provide care and protection for their offspring. These needs and activities are again geared toward survival of the individual human beings and the human species.

As beings manifesting rational powers, human beings are intelligent, social and creative beings. They are capable of knowing, judging, deciding, loving and acting. At this level, human beings have the need to know the truth, to be treated and to treat others justly, to love and be loved, to respect and be respected, and to undertake projects of their own choice and invention. It is at this level that human beings have rights and duties. They have roles to play and work to do.

The Aristotelian conception of the human being as a microcosm has far reaching implications on work, namely:

Work and Fulfilment of Human Needs: Work is a means of fulfilling human vegetative, sensitive and rational needs. Agricultural work, for instance, meets human vegetative needs for food and clothing. Medical work meets human sensitive needs for safety and protection of the young. Academic and political work meets human rational and social needs.

The Exercise of Human Powers through Work: Work is an expression of vital material and spiritual powers of the human being. Vegetative powers, e.g. bodily organs and strength, sensitive powers, e.g. the sense of sight, hearing

22 ARISTOTLE, *De Anima*, Book 2, in Robert HUTCHINS, ed., *Great Books of the Western World*, Vol. 8, Chicago: Encyclopaedia Britannica, 1952.

and touch, as well as rational powers of speculation, recognition and volition are exercised during work.

Work and Integration of Matter and Spirit: Work integrates matter and spirit – object and subject. At work, the human mind meets inanimate matter and concepts are objectified. The concept of a table, for instance, is objectified in a wooden structure through the work of carpentry. The object, wood, meets the subject, the carpenter, in the activity of work. This results in the objectification of the concept, table.

Work and Human Actualisation: Work ensures human survival, as well as human actualisation. Aristotle maintained that the primary function of the human being is rational activity. By satisfying human vegetative and sensitive needs, work facilitates the survival of not only human individuals, but also the entire human species.

Work has material and spiritual dimensions that are not opposed to one another, but are integrated into a harmonious whole. The material dimension of work has to do with vegetative and some sensitive abilities and needs. The spiritual dimension has to do with rational and some sensitive abilities and needs.

4.2. THE THREE-BRAIN THEORY

Clarke presents Paul McLean's Three-Brain Theory as a contemporary product of neurological research.²³ According to this theory, human beings have three brain centres actively working together within one brain:

The Reptilian Brain: This is a 'careless' brain centre, whose main concern is the survival of the possessor alone. It is egocentric and self-centred. Survival instincts dominate it. This is the least-developed brain centre.

The Mammalian Brain: This is a relatively caring brain centre. The possessors of the brain manifest concern for themselves, their offspring and their immediate relatives. It is sensitive to its blood relations or, in other words, 'kin-sensitive' or 'kin-centred'. This is the 'average' brain centre – at the intermediate level of development.

The Neo-Cortex Brain: This is an altruistic brain centre that manifests reason and love without discrimination. It expresses concern for oneself, others, the environment and God. This is the most developed brain centre.

The three brain centres must work together for a fully-developed human life. The lower centres, however, must in each case subordinate to the higher. According to the theory, 'the neo-cortex brain centre has evolved so fast that the neuron connections between it and the lower two are

23 CLARKE, 'Living on the Edge', p. 197.

not fully developed with strong stable pathways'.²⁴ It, therefore, does not have sustained control over the lower two brain centres. In moments of heavy stress, human beings spontaneously tend to drop down to the lower brain centres and care for their relatives and offspring and ward off others threateningly, physically or psychologically. In extreme cases, when survival is at stake, human beings spontaneously drop down to the lowest brain centre and fight for their own survival.

The theory proposes ways by which human beings can voluntarily control their responses, in order to act rationally and altruistically according to higher human values. By deliberate acts of virtue, even under stress, human beings can develop new neuron connections. Human beings should, by an act of will, transcend the automatic reflexes of the animal residing in the reptilian and mammalian brain centres.

The Three-Brain Theory has the following implications for work:

Varying Motivations to Work: The theory exposes varying motivations to work. The reptilian brain centre would incline individuals to seek their own interest in the workplace. This is individualism. Such individuals would seek to give little exertion to work and yet yield the greatest gains. Such workers would be tribally, nepotistically or racially disposed towards others in the work place. Merit would be disregarded in recruitment and promotion of workers. The neo-cortex brain centre would incline individual workers to be sympathetic, reasonable and considerate at work. Such workers would not fear or favour anyone arbitrarily in their provision of service.

Self-Centred vis-à-vis Altruistic Work: The theory subordinates self-centred, survival work to rational and altruistic work. According to the theory, survival work that is solely geared towards self-gratification is inhuman. Human work should transcend the survival level. It should cater for the well-being of the worker and the entire community of human beings.

Voluntary and Involuntary Work: Voluntary work, which is characterised by human reason and will, is possible only at the highest level of the brain, that is, the neo-cortex brain centre. At the lower brain centres, work is not properly human, since it is not voluntary but compelled by survival instincts.

From the above theories, it is evident that human beings have the following capacities: freedom and moral consciousness, rationality, sociality, individuality, creativity as well as perfectibility. These capacities have the following implications for work:

- a. *Freedom at Work:* Truly human work should be free and uncoerced. Slavery and authoritarian management of work

are thus inhuman. Free work is consultative. It is a form of dialogue whereby all the parties involved have an opportunity to participate.

- b. *Responsibility at Work:* Workers should be accountable or answerable for what they do at work. They should not merely follow 'orders from above'. If they do, they should bear the consequences of acting in bad faith.
- c. *Conscientiousness at Work:* Freedom and responsibility at work imply conscientiousness. Individual workers should cultivate a rational sense of right and wrong based on a critical consciousness of human well-being. This should be their guide at work. As such, they should be self-critical and self-supervised.
- d. *Goal-Oriented Work:* Truly human work should be instrumental to the achievement of individual as well as collective human projects. As a rational being, each individual should have a self-prescribed plan of life. Such a plan may have economic, intellectual, social and even moral aspects. It has quantitative (tangible, spatiotemporal) as well as qualitative (spiritual) targets. Truly human work should assist the individual worker towards achieving such goals of life.
- e. *Work and Social Integration:* Work provides an opportunity for human beings to interact. At work, human beings unite their efforts for a common purpose. Through work, human beings recognise their diverse but complementary abilities and needs. Work is, therefore, a means of social integration. It creates a mutual sense of belonging among workers.
- f. *Work and Human Dialogue:* Work enhances friendship and openness in communication among the workers. By enhancing interaction, work becomes a dialogue between workers, verbally and non-verbally. Through work, the workers express their need and appreciation of one another.
- g. *Work as a Social Service:* Work, seen in a social context, is a service – a caring activity upon others. It is a form of giving oneself to others and receiving others unto oneself. As such, it is an expression of love for oneself and others.
- h. *Work as a Collective Project:* Work is a concerted effort to execute a project for the human race. The achievements of workers in one generation are carried forward to the next. The failures, as well, are carried forward. Work is, therefore, the assumption of responsibility for the future generation. As such, it is an awesome project.
- i. *Individuality and Openness to Change:* Individuality is a state of being characterised by autonomy in thought and action. It is different from individualism, which means the tendency to

seek one's own interest, even at the expense of other's well-being. Work is one context within which people can choose to enhance either individuality or individualism. Individuality recognises and respects the interests of other people but has the courage to stand alone whenever duty, truth and other higher values and goods demand it. Individuality presupposes openness to change. However, the individual rationally, freely and creatively manages that change. In the world of work, individuality implies ability to improvise, to invent, to discover new ways of solving problems, instead of merely being complacent about old procedures, rules and conventions. Individuality seeks to examine conventional, traditional and popular ways of working with a view to judging whether/what change is necessary. Punctuality in Kenya, for instance, is popularly played down and lateness to work excused under the guise of 'African time'. Such tendencies do not pass unscrutinised by an individualist. Consequently, creative modifications are effected in thought, belief and action.

- j. *The Transformative Role of Work:* Individuality and its emphasis on rationality and creativity make work become an opportunity for the worker to shape his society, as well as himself. Work becomes an effective means for the worker to explore possibilities of bettering his own life and that of his fellow beings.
- k. *Self-Reliance and Autonomy:* Individuality enhances self-reliance and independence at work. A self-reliant and autonomous worker does not need to be monitored or supervised when working. Recognising work as his/her self-prescribed activity, the worker is his/her own master. The worker sets his/her own expectations of him/herself. He/she sets his/her own targets and deadlines and strives to achieve them respectively. The worker is, therefore, self-motivated. The worker is also self-correcting. He/she recognises his/her own shortcomings, determines their source and invents and implements ways and means of overcoming them. Individuality does not necessarily exclude team spirit at work. It provides the initiative that gives life to effective teams. A team that comprises people with neither vision nor opinion cannot effectively address work challenges and goals.
- l. *Reliability and Accountability at Work:* An individualist at work is reliable and accountable. This is because he/she is not compromised. He/she cannot be bought or sold. Being resistant to moral corruption, the worker's honesty and integrity make him/her dependable. Such workers merit promotion and honour and they get them by and by.

5. WORK AND HUMAN PERFECTION

According to McLean:

Much can be proposed by other persons and things; much can even be imposed upon me. But my self-consciousness is finally my act and no one else's. How I assess and respond to my circumstances is finally my decision, which relates to, but is never simply the result of, exterior factors In making choices which shape my world, I also form myself for good or evil. Persons are conscious of perfection, but toward which they are dynamically oriented. Hence, the person is essentially active and creative.²⁵

McLean's argument can be summarised as follows: rationality, self-consciousness, and decision-making that are creative and individualistic are all self-initiated and self-directed forces that perfect the human person. The goal of reflection, sociality, creativity, moral responsibility and individuality is self-improvement or perfection: 'A person should be understood also in terms of his or her goals, for activities progressively modify and transform one in relation to the perfection of which one is by nature capable and which one freely chooses.'²⁶ The choices one makes determine the direction and worth one's life assumes. Through choices, human beings determine themselves.

Perfection in the above sense means the harmonious and continuous development or improvement of one's physical, moral, social, intellectual and creative capacities. That human beings are perfectible means that they have the capacity of being 'continually made better and receiving perpetual improvement.'²⁷ Absolute perfection is impossible for human beings, because their potential is unbounded. If they could arrive at absolute perfection, there would be an end to human improvement and activity. Such an end would lead to stagnation of human capacities. Perfection demands perpetual employment of human physical and mental faculties: 'Every perfection or excellence that human beings are competent to conceive, human beings, unless in cases that are palpably and unequivocally excluded by the structure of their frame, are competent to attain.'²⁸

Perfection is also seen as a rational choice. It is an alternative to being complacent and static. It is protest against retrogression and lethargy. It

25 George F. McLEAN, 'Philosophical Notions of the Person', in Vincent SHEN, Richard KNOWLES, and Tran VAN DOAN, eds., *Psychology, Phenomenology and Chinese Philosophy*, Washington: Council for Research in Values and Philosophy, 1994, pp. 61-62.

26 *Ibid.*, p. 60.

27 William GODWIN, *Enquiry Concerning Political Justice*, Oxford: Clarendon Press, 1971, p. 58.

28 *Ibid.*

is an affirmation of dynamism. As such, perfection is an ideal towards which human persons strive.

Regarding what it means to achieve well-rounded human development, Alan Gewirth's conception of perfectibility is enlightening. His broad view of development embraces three dimensions: the development of the whole person, i.e. mind, body and soul; the development of all persons, i.e. communities of rights such as nation states; and the development of all peoples, i.e. the community of nations.²⁹

Perfectibility, seen in this light, is a personal, social and universal challenge and responsibility. It calls for solidarity, mutual concern and interactivity among persons. Perfection at the personal level is a suitable beginning point for the development of all peoples. The implications of perfectibility for work include:

1. *Work and Perfection of Human Faculties:* Work is an appropriate means of perfecting human faculties. Since human faculties are perfected by use or employment, work, which essentially involves employment of material and spiritual faculties, is an effective means of their perfection.
2. *Work and Multiple Perfections:* Work is a means to multiple perfections. It perfects the worker by actualising his/her intellectual, moral, social, physical and creative powers. It also perfects the human society. It integrates the members of society, thus enhancing social harmony. It also fulfils the diverse economic, political and cultural needs of society. This gives society stability by minimising or resolving social conflicts. Work also perfects itself. New tools of work, new specialisation and division of labour, new values of work are invented and employed at work.
3. *Work and Human Consciousness:* Work extends the human domains of consciousness. By allowing individual minds to creatively experiment with ideas, new avenues of human consciousness are opened up. Human beings become increasingly aware of themselves, their motives, their destiny, and their environment. This expansion of human knowledge, in turn, expands the possibilities of human freedom and creativity. Human life is thus enlarged and enriched.

Two modes of perfection can be discerned as centrally related to work: teleological and technical perfection.³⁰ Teleological perfection has to do with attainment of an end inherent in the human being. This end is

29 Alan GEWIRTH, *The Community of Rights*. Chicago: University of Chicago Press, 1996.

30 John A. PASSMORE, *The Perfectibility of Man*, London: Duckworth, 1970.

personhood, i.e. the ability to effectively exercise one's rational, creative, volitional and emotional faculties, which characterise a self-conscious human being. Technical perfection has to do with a human being's mastery of his/her work. It involves the enhancement and acquisition of skills and expertise relevant to one's occupation. Technical perfection makes workers professionals in their particular fields of work, while teleological perfection transforms human beings into human persons. Both modes of perfection are significantly work-related.

Andrew Varga observes that 'we are not complete and perfect in our humanity when we are born, but when we try to achieve the perfection of our nature throughout our life by performing acts which contribute to this perfection'.³¹ Human action undertaken freely, rationally and creatively is the means by which human beings develop into human persons. Human perfection is thus the proper aim of work. Since business is one form of work, it should also have human perfection as its primary objective.

6. BUSINESS AND BUSINESS MANAGEMENT

Fred L. Fry, *et al.* define business as 'any organisation that strives for profits by providing goods and services that meet customer needs'.³² Business has also been defined as 'all activities involved in the production and distribution of goods and services for profit to satisfy consumer needs and wants'.³³ It can be discerned in the above definitions that profits are given priority over everything else. The impression given is that acquisition of money is the primary motive of business. Meeting customer needs and serving people are merely means to profit-making. This is the money-mindedness discussed earlier in this paper.

Being a creation of human beings, money ought to serve humanity. It was created to meet human needs. In the above definitions of business, however, the roles have been exchanged. The object (money) has been transformed into a subject, while the subject (human person) has been made a mere object, that is, a means of moneymaking. Marx calls this process the reification of money.³⁴ This means that money, which is a human creation, is endowed with characteristics that elevate it above its due status as a use value. As a result, money becomes fetishistic. This means that it conceals its function as a means to human satisfaction.

31 Andrew C. VARGA, *On Being Human: Principles of Ethics*, London: Penguin Books, 1978, p. 29.

32 Fred L. FRY, Charles R. STONER, and Richard E. HATTWICK, *Business: An Integrative Framework*, Boston: Irwin, 1998, p. 7.

33 ZIKMUND, MIDDLEMIST, and MIDDLEMIST, *Business*, p. 4.

34 MARX, *Early Writings*, p. 361.

Instead, it assumes the status of an end and becomes the focus of human adoration and attention.

The reification of money is real among many businessmen and women in Africa. It degrades all of the stakeholders in a business. We probably know businesspersons in our neighbourhoods who make or even buy and sell nutritious food, yet whose very families are malnourished. A certain rich man in my village saved hundreds of thousands of shillings in a prestigious bank and yet, in every other way, fitted the physical definition of a pauper. The bank manager once called him aside when the old man had come to make yet another of his frequent cash deposits. The manager persuaded him to go and buy decent clothes. The old man obeyed grudgingly. He later made it a habit to put on those clothes only when he could not avoid meeting the manager. He died a miserable death, but left a fortune behind.

Longman gives a variety of meanings for the term 'business'. Apart from denoting trade activities, business can also mean 'one's responsibility or concern'.³⁵ In ordinary discourse, the expression 'it is my business to do ...' declares a duty. In this sense, 'business' is not merely an economic term; it is a vital moral term that gives life and meaning to such moral concepts as duty, rights and integrity. As a moral term, 'business' has to do with enhancement of human lives and relationships. Through business, for instance, food is created, distributed and consumed, leading to enhancement of health and life. Consequently, the right to life is respected and the parental obligation regarding provisions to the children is fulfilled. In the course of business, promises are made and either kept or broken. Business provides an opportunity to choose between telling lies and telling the truth, harming others or promoting their well-being. Business is an investment in people's lives. People's well-being is the end of business.

Business management can be defined as 'the effective and efficient integration and co-ordination of resources to achieve the desired business objectives'.³⁶ It has to do with the way human, capital and technological resources are organised, combined and utilised, in order to achieve business goals at minimum costs. When profit-making is taken as the sole or even the primary goal of business, the human person, like any other resource, is regarded as a mere means. This can lead to dehumanised relations among people. Such was the case in the classical capitalism that Marx so vehemently condemned. Business is, therefore, primarily about

35 Longman Group, *Longman Dictionary of Contemporary English*, Burnt Mill, Harlow, Essex: Longman Group, 1978, p. 130.

36 ZIKMUND, MIDDLEMIST, and MIDDLEMIST, *Business*, p. 140.

people. Its primary goal is human perfection. Profits or any other form of material gain should be a by-product of genuinely investing in people's well-being.

Human perfection, as the proper aim of business, means that business activities must be person-centred. Persons must be regarded as significant subjects, not mere objects or figures in business projections and transactions. As C. Mandi observes,³⁷ all stakeholders in the business must be regarded as persons that count. Service must make a lasting contribution to the well-being of customers. Business must be a win-win human relationship. This cannot be achieved if moral values are subordinated to profit-making.

7. REASONS FOR SUBORDINATING PROFITS TO MORALS IN BUSINESS MANAGEMENT

- a. Human beings are the creators of material value. They give meaning to these values. These values should, therefore, serve human beings and not vice versa. When humans become mere servants of money, they lose their dignity as persons.
- b. Non-profit organisations have proved that service can possibly be prioritised over profits with immense benefits to mankind. Such services as peace-making and -keeping and other life-saving activities are conveniently done with profits subordinated to morals.
- c. Human beings are not equally endowed materially, yet they all have legitimate and sometimes urgent needs. Insisting on being rewarded through profit-making would mean loss of lives in some cases. This would lead further to loss of customers and ultimately loss of business. Any obsession with profit-making is, therefore, self-destructing. It is not sustainable in the long run.
- d. The nature of service often defies quantification. Insisting on being rewarded through quantifiable profits can sometimes be either deceptive or impractical. There are times when the best reward in a business will simply be knowing that one has met another's need or simply that one has made another's burden lighter. This can motivate such altruistic actions as debt cancellation.
- e. Business is only a part of a total integrated process, namely human life. Its meaning is clearer when the whole is given proper attention. Regarding business as primarily aimed

37 C. MANDI, 'Dignity of Labour and Lesson of the Seed', *The Sunday Nation* (Nairobi), 8 June 2003, p. 7.

at profit-making is to confuse a part with the whole. It is a narrow perspective of business and its place in human life.

8. THE WAY FORWARD FOR BUSINESS MANAGEMENT: TOWARDS CULTIVATING A HUMANE BUSINESS CULTURE

A business that happens to make a lot of money in a short time period but then falls far short of its objectives later is not successful. Neither is a business that makes great financial returns but only at the expense of low morale, uncommitted workers, shoddy products, or unethical behaviour. In order to be truly successful, a business must excel, and it must excel over the long run.³⁸

I believe that the way to achieve excellence in business is to reorient its main aim towards human perfection. This would develop trust among the stakeholders involved. Development of trust would lead to increased cooperation and coordination of efforts, leading to enhanced productivity: 'Productivity and trust go hand in hand.'³⁹ With increased productivity would come increased profits. But profits would be the by-product of service and enhanced human relationships in business.

For business to promote human perfection, the following need to be considered:

- a. *Re-evaluation of Profit as the Main Aim of Business:* Human well-being should be the main purpose of business. Profits should be considered as 'the reward to the firm if it continues to provide true value to its customers, to help its employees to grow, and to behave responsibly as a corporate citizen'.⁴⁰ Wealth should not be conceived only in economic terms. Human well-being should be regarded as the higher spiritual meaning of wealth to which economic wealth should be a means.
- b. *Integration of Business and Ethics:* Classical capitalism divorced ethics from business. It regarded moral values as incompatible with good economics. This stance led to abuse of workers. The greed and callousness of early capitalists justified the self-righteous claims of socialists and communists. Business managers should seek to integrate criticality, ethics and entrepreneurship in their firms. Criticality is useful in business as a means of self-evaluation and self-correction. It helps in identifying areas that need improvement, thus stimulating the imagination. This can lead to creativity. Ethics is important

38 FRY, STONER, and HATTWICK, *Business*, p. 7.

39 William OUCHI, *Theory Z: How American Business Can Meet the Japanese Challenge*, Reading, Massachusetts: Addison-Wesley, 1981, p. 5.

40 *Ibid.*, p. 75.

in ensuring that human business interests and interactions are dignified. Entrepreneurship is important in ensuring that there is innovation and initiative in business.

- c. *Cultivation of People Skills*: Since business is about people and their well-being, adequate attention ought to be given to cultivation of people skills, for instance, empathy, communication, consensus building, cooperation, among others.
- d. *Professionalisation of Business Activities*: Professionalism emphasises service and the moral values, as well as the technical competence that facilitates quality service. This service orientation could be infused into business through the professionalisation of business.
- e. *Examination of Both the Means and Ends of Business*: Perpetual scrutiny of business methods and goals should be performed. This is the moral audit necessary to ensure that both the means and ends are people-friendly and people-centred.
- f. *Integrity to Accompany Integration of Resources*: Business managers must ensure that integrity and fair play accompany their efforts to integrate resources, as well as their decision-making.
- g. *Enablement and Ennoblement as Long-Term Business Goals*: There is a sense in which many businesspersons thrive on their customer's ignorance or misfortune. Many medical clinics in Kenya, for instance, are making profits mainly because people around them are ignorant of simple principles of personal hygiene. If such people were enlightened concerning disease prevention and the use of simple remedies, the clinics would either run out of business or revise their business objectives. The enablement and ennoblement of human beings should be regarded as the long-term goals of business.
- h. *Taming the Competitive Spirit*: Competition means 'a test of strength, skill, ability, etc.'⁴¹ Understood as such, it is a healthy aspect of business. When the strength, skill and ability of a business to satisfy customer needs are tested, the business is challenged to be more sensitive to human well-being. This may necessitate innovation or co-operation with other businesses. When the focus of business is merely maximising profits, competition becomes destructive. Instead of businesses concentrating on improving the quality of their goods or services, they use resources to fight each other. This kind of competition should be tamed.

9. CONCLUSION

Business management needs to have human perfection as its proper aim. This essay holds this opinion on the strength of the various views discussed above regarding human nature and well-being. If business is obsessed with making profit, it risks alienating its stakeholders, as well as ultimately destroying itself. This is aptly reflected in the following wise sayings from Franklin Delano Roosevelt and Gary Edwards, respectively:

We have always known that heedless self-interest was bad morals; we know now that it is also bad economics.⁴²

‘The good life’ is not an economic but moral concept.⁴³

42 Andrew SIKULA, *Applied Management Ethics*, Boston: Irwin, 1996, p. 7.

43 *Ibid.*, p. 8.

THE OBJECTIVE OF MAXIMUM PROFIT, OR THE WISHFUL THINKING OF A 'HYPER-MONETISED' ECONOMY

MINERVA ULLATE FABO

The business firm is a social institution established to satisfy our desire for external goods. Its ubiquity in time and space demonstrates the human need for coordination, in order to tackle economic problems efficiently. It is clear, therefore, that the objective of the firm should be related to the creation and distribution of wealth. Should, then, the firm aim at maximising profit? It does not seem to follow. Orthodox economic theory, such as the neoclassical and Austrian schools, however, argues about the activities of the firm without taking into account any aim not expressible in monetary terms and, therefore, reflected in profits. That is why this essay, centred on the correct nature of the objectives of the firm, has a double aim. The first aim is to show that taking maximum profit as the objective of the firm demands an understanding of economics as an autonomous field. It operates according to its own logic, that of 'pure means', intimately linked to a 'hyper-monetary' vision of human motivations and of society. Secondly, I intend to show that if we take man into account as a unity of body and soul, the objectives of the firm should be multidimensional. Failing to do so would not only be ethically incorrect, but also, in the long term, could have negative consequences for the efficacy of the firm itself.

1. A BRIEF REFLECTION ON THE OBJECTIVES OF THE PERSON AND THE MEANING OF ECONOMIC ACTIVITY

In order to answer a concrete question, we should step back somewhat and establish whether the question is part of a larger problem. In this way, we can get the key to understanding it. In the case in hand, to spell out properly the problem of the objectives of the firm, we should first take into account the objectives of the individual and of social human action, then the role of economic action in general, and finally of the firm in particular. The business enterprises of any society reflect the way it understand human needs.

Beginning towards the end of the nineteenth century, there has been a certain agreement in considering economics as the science that studies how to allocate scarce resources. The neoclassical theorists have made it sufficiently clear that the means for the allocation and the ends of it are

not economic problems. The only thing that economics does is allocate. Economics studies the chosen option in a given situation, where the means, the alternatives and the aspirations that allow us to judge are known. The logic of economics is, therefore, one of consequences, its results depending on extra-economic elements. This does not mean *a priori* that it is correct to take the economic and material side of man and study it in isolation. To affirm or deny the autonomy of economics requires an analysis of its relationships with non-economic dimensions.

There is an aspect of human nature that apparently has little relation with economics, but it is useful to understand what place economics occupies among human activities. Man does not bestow being on himself. That is why he is on the look for his origins, constantly searching for the meaning of life and of the world around him. Everything in man is related to his ultimate purpose. It is adequate, then, to describe man as a being who acts deliberately and purposefully. Generally speaking, we define a purpose as a target that requires a particular action to be achieved. There is agreement about the fact that all actions have happiness as their ultimate end, and that it is human flourishing.¹ But, how do you attain happiness? St. Augustine wrote in *The City of God* that there are two ways of seeking it, one natural and the other supernatural. The natural way focus on the possibilities the world offers, while the supernatural way directs its attention to God.² The worldly search for happiness is complex, since 'the means to the end, in human concerns, far from being fixed, are of manifold variety according to the variety of persons and affairs.'³ With the exception of happiness, all other goods are relative.⁴ Aspirations are not homogeneous and, usually, cannot be attained simultaneously and to the same degree. That is why it is necessary for each man, and for each society, to discover an order guided by the knowledge of good and evil,

1 ARISTOTLE defines *happiness* as something that is chosen for itself and for no other thing (*Nicomachean Ethics*, 1097b). St. Thomas AQUINAS takes the search for happiness as the starting point of the *Summa Theologiae*: '*homo naturaliter desiderat beatitudinem*' (*Summa Theologiae*, Pt. I, Q. 2, Art. 1). What is good is what is desirable and, St. Thomas says, since evil is contrary to good, no evil can be directly willed, neither by the natural or animal appetite nor by the will (*Summa Theologiae*, Pt. I, Q. 19, Art. 9). What is evil, like pain, cannot be the object of desire. Any action in search of an end means searching for good or happiness, real or apparent. If the search is for evil, it is always for that appearance of good that it has for the one who is searching.

There is in man something previous to himself, since he has not chosen his desire for happiness and is not able to grant it to himself.

2 In this book, St. AUGUSTINE points out that in ancient philosophy there are no less than 288 doctrinal opinions concerning what the ultimate happiness of man is (*The City of God*, 19, 1).

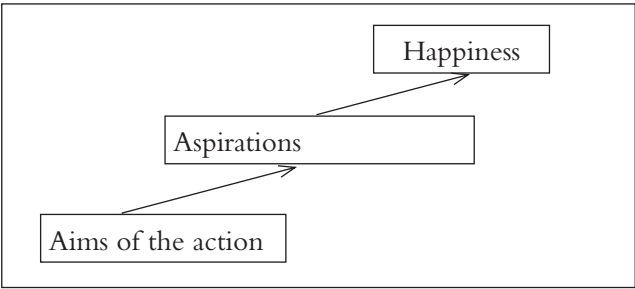
3 Thomas AQUINAS, *Summa Theologiae*, trans. Fathers of the English Dominican Province, 2nd Ed., London: Burns Oates & Washbourne; New York: Benziger Brothers, 1920, Pt. II-II, Q. 47, Art. 15.

4 Thomas AQUINAS, *Summa Theologiae*, Pt. I-II, Q. 10, Art. 2.

of better and worse. This order, usually not perfectly defined, will be the one defining the meaning of the action in its totality.

I call ‘aspirations’ or ‘vital interests’ the fundamental ends where man thinks happiness can be found and which guide his choices. I distinguish them both from the ultimate end and from the particular ends, which I call ‘objectives’, attempted in function of ‘aspirations’.

Table 1: Purposes of the Moral Agent



The order of aspirations is the *raison d’être* of all human action. Regarding the means, the moral agent analyses series of concrete objectives integrated into plans, and settles for one. A ‘plan of action’ can be defined as an adequate projection of means to ends, i.e. a system of future actions relative to the means and expected ends. Three types of actions integrate the plans.⁵ Representative actions are a direct expression of the ends or ideals. Other actions – such as organising activities – perform and provoke the representative action and, in general, allow activities to endure. Finally, economic actions result from the need to allocate useful goods, so as to facilitate and carry out the first two types of action in the best possible way.⁶ The degree of scarcity of useful goods forces one to choose among the different objectives.

Therefore, to avoid forgetting the place of economic actions and their meaning in the global dynamics of human activities, we should complete the foregoing concept of economics. Economic action is the attempt by persons to allocate scarce resources to alternative objectives, in order to achieve their aspirations as best they can.

5 This is a classification similar to that of Othmar SPANN, *Gesellschaftsphilosophie*, Munich: Oldenbourg, 1928.

6 As an example, research is a representative action to reach wisdom. The setting up of a research institute that allows research in a stable way is an organising activity. The allocation of scarce means to get books and the necessary material to research is an economic action.

The importance of economic action derives from the fact that we cannot avoid the issue of choice, given the scarcity of resources. Useful goods – objective goods or useful human actions⁷ – cause certain human aspirations, provided the causal relation is known and people are in a position to use them.⁸ Useful goods can become ends in themselves, if they are part of the legitimate aspiration to material welfare, or means towards attaining representative and organisational activities towards other kinds of aspirations. Among useful goods, economic goods are those that, owing to their scarcity, force one to choose the best use among several alternatives. Consequently, there is a process of interchange (not necessarily trade) among different kinds of goods. Man, incarnate spirit, requires material goods in order to perform even the most spiritual activities. He must, however, manage his limited material condition in accordance with his spiritual nature. It is the whole man that works, prays, plays and loves.

Aristotle regards social reality as an important aspect of human nature. It follows that other persons are not mere data limiting the agent's range of action, but many personal ends are shared with and include other persons. A business firm is the coming together of wills and means in order to achieve common ends. In the production of created goods, always limited, men have always organised themselves to reach their targets in the most efficient way. The firm is a social institution born to organise the production of external goods efficiently. Its function is to create wealth through the application of specific techniques, in order to satisfy concrete external needs. But, a worker does not separate his *homo oeconomicus* from his person; with each concrete action at work, he aims at the vital order of aspirations that provides meaning. It is not adequate to study the economic and material side of man in isolation; its interconnections with non-economic aspects make it a part of one's total vital activity.

This general approach may appear far removed from the main topic. It allows us, however, to ask questions about the objectives of the firm within the wider range of human action. In this way, we can see that to conclude that the aim of the firm is the long-term maximisation of profit, we must first make a number of additional assumptions that fit in with the modern conception of the world and the money-driven society reflecting it, well analysed in Georg Simmel's *The Philosophy of Money*.

7 Carl Menger, *Grundsätze der Volkswirtschaftslehre*, Vienna: Wilhelm Braumüller, 1871.

8 The definition of useful goods corresponds to the definition of goods given by Menger. In our understanding, we should stress that economics refers to useful goods, in order to distinguish them from goods that are ends in themselves.

2. THE 'HYPER-MONETISATION' OF THE ECONOMY

The maximisation of profit has much to do with confusion of the 'economic' and 'monetary' fields, usually taken for granted by both professional and amateur economists. This opinion, although incorrect, has a ring of truth. It should be clarified in order to make it possible to spell out in its proper terms the problem of the objective of the firm.

It has been pointed out above that goods are useful when, in virtue of their nature, they can contribute – directly or indirectly – to the attainment of other human objectives or ends. Consequently, their value derives from the ends in which they share. It has also been pointed out that useful goods are called economic when, because of their scarcity, it is necessary to choose among them. That is the reason the value of scarce goods is not a direct fruit of their nature, but of their relativity, of their better relative use. The economic value that results from giving up one good for another can be understood as the best bargain in that transaction⁹ and is usually defined as the opportunity cost. Therefore, economic value, always referring to the means, derived from the comparison among alternatives, can be interpreted as a manifestation of the relativity in the material condition of humanity¹⁰ that forces it to give priorities to its ends.

The measurement of value necessary to compare alternatives can take different forms, to the proportion that money allows it to be established. In many cases, it cannot go beyond the establishment of a certain order.

Money is a means of communication, summarising the economic importance of things by means of its language. It is able to express what goods have in common. As a consequence, the amount we pay for something gives solidity to our enjoyment, which makes it comparable and interchangeable. Through money, the reciprocal relationship that goods establish according to their saleability finds its most pure expression. In the words of Simmel, 'the money price of certain merchandise is the measurement of its saleability in respect of other pieces of merchandise'.¹¹

But money is a peculiar instrument: while the amount of objects that can be obtained with money increases, money becomes more powerful than the qualities of those objects, thus acquiring more than anything else

9 This interchange is at times a social process, at other times an individual process, merely subjective, in which the agent compares the possible alternatives that he or she is able to imagine.

10 Cf. Georg SIMMEL, *Philosophie des Geldes*, Berlin: Duncker & Humblot, 1900; trans. Tom BOTTOMORE and David FRISBY, *The Philosophy of Money*, 2nd Ed., London: Routledge, 1990.

11 *Ibid.*

the psychological character of an absolute ultimate end. When money becomes a pathological ultimate end, it does not allow goods without economic value to acquire the status of ends, and tends to reduce them to the category of means.¹² It does not tolerate the friction generated by the existence of relations or goods for which money does not serve as a measure of value and which demand to be valued according to their nature.

We call an economy 'hyper-monetised' when money has become the main aim and the only measure of value. The consequences of this pathology on personal relationships are especially serious. An exclusively monetary perspective makes each person consider the services of others in a reductive, a-social manner.¹³ Modern economics has made possible the rise of associations articulated around exclusively monetary interests. The clearest case is the limited liability company. With the separation of ownership and management, the shareholder's interest becomes so focused on money that the activity of the company is irrelevant to him or her. This explains why the aim of such organisations is considered to be the maximisation of profit or shareholder value. If money is the aim, its amount is the only outcome of significance.

Companies are established with the expectation that individuals will team up without disclosing anything personal or specific. One person matters to another only according to the objective functions he or she discharges, measured precisely in monetary terms. Although absolutely inadequate for personal relationships, it is taken for granted that a monetary economy enables a process of intra-personal differentiation, allowing a certain independence with regard to different interests and fields of action. It is also taken for granted that money is the adequate equivalent to any economic transaction, thus separating it from the whole person and turning work into merchandise.¹⁴ Economics is assumed to be concerned only with means. The whole person is not considered

12 Cf. *Ibid.* Wisdom, the moral virtues, health, and beauty cease to be ends and are instead understood as means to attaining greater monetary success.

13 The individual has the possibility of choosing when and where he will realise his aspiration, thus breaking the immediate character of relationships.

14 Even if it is not in accordance with its nature, anything can resemble an item of merchandise, as long as we think of it as something we can acquire for something else or something we would be willing to give up for what is most desired (cf. Arjun APPADURAI, 'Introduction: Commodities and the Politics of Value', in APPADURAI, ed., *The Social Life of Things: Commodities in Cultural Perspective*, Cambridge: Cambridge University Press, 1986, pp. 3-63). The excessive division of work and the separation between work and capital impede the connection between the finished work and the spiritual unity. Both phenomena favour the process of differentiation that turn work into an item of merchandise, something separated from the worker, who produces purely objective and anonymous outcomes that do not affect him.

to be one of them, only an objective manifestation of the personality, separated from the whole. This is the fundamental difference, of enormous importance, between the modern and medieval ways of understanding economic organisations. Medieval man did not distinguish between a human being as such and as a member of a community.¹⁵

This 'hyper-monetary' conception takes for granted the existence of an autonomous economic field, concerned only with 'means', where reified persons or things, both instruments, are somewhat unified by money. All elements, including human work, have the same weight. They differ in quantity only.

This is wishful thinking, because reality shows that 'qualitatively different things do not show immediate equivalence'.¹⁶ This truth can be seen in certain goods with outstanding individual features, but much more so in individual personalities in any of their manifestations. Opposed to personality, which is least measurable, we find money, most measurable. As Simmel points out, 'Exchanging an authentic personal value for a given amount of money, in the absence of an ideal equivalent amount, individual life gets upset and suffers a loss of substance'.¹⁷ Hence, to define the objectives of business and labour exclusively in monetary terms is inadequate to man's nature and may have negative effects in the short, medium or long term.

3. THE THEORY BEHIND THE 'HYPER-MONETISED' SOCIETY

When orthodox economic theories, such as the neoclassical and Austrian schools, attempt to explain the functioning of the economy, they assume a society that, far from being a general model, is a pathological extreme case, here called 'hyper-monetised'. It is not surprising then, that when these theories refer to business activities, the only objective they take into account is profit, expressed in one of many ways.

The 'neoclassical firm'¹⁸ is an organisation pursuing a maximum profit within its production set¹⁹: its degree of knowledge about the possible ways to transform a homogenous series of factors into a series of products. If the possible activities of the firm are known, and if the

15 SIMMEL, *Philosophie des Geldes*.

16 *Ibid.*

17 *Ibid.*

18 We should take into account that the 'neoclassical firm' was not conceived as an object of analysis in itself, but because of its usefulness for the study of markets and the determination of prices, the principal aim of neoclassical theoreticians.

19 Kenneth J. ARROW and Frank H. HAHN, *General Competitive Analysis*, San Francisco: Holden-Day, 1971, p. 53.

technological knowledge is taken as perfect, the firm will choose that activity and technology available and the level of production that allow it to maximise profits according to the relative prices of goods and factors.²⁰

The limit to profit is only a question of knowledge, never of motivation. Following the tenets of neoclassical theory, the relevant relations between persons will be exclusively contractual.²¹ The prices of factors – including work – and of consumer goods are determined in the market exclusively by supply and demand. The price of a product allows paying everyone according to his net contribution to production, understood as marginal contribution.²² A certain number of persons who are able and willing to cooperate is necessary in order for an organisation to exist. In the neoclassical model, the provision of services is taken to be objective, since there are markets for the different homogeneous groups of other factors. Coherence in motivation, allowing the various participants to act in unison, is guaranteed by the equilibrium of prices. The theory does not allow personal conflicts within the company, and social conflicts will disappear thanks to the market; somehow, the market coordinates the agents' plans in a way that they reach the highest utility and profit possible. For the businessman, the theory assumes that, whatever his diverse motives, profit will facilitate his carrying them out. Motives become operative once the surplus is distributed, not before. As a consequence of the autonomy of the economic field, neither his motives nor their possible evolution will have any influence on the *modus operandi* of the firm. For labour, the marginal productivity of work will always be able to fuel the incentive system. This is limited to wages, with which employees will always buy the goods and services that satisfy them

20 We wish to point out that when supposing both knowledge of the way to utilise the means to reach the objectives (different levels of production) and the relationship between the aims and the benefit (relationship between different levels of production, its modes of production and the benefits), the rationality of the decisions of the firm is guaranteed.

21 This aspect has not changed in recent neoclassical versions, such as that of Oliver WILLIAMSON, centred on individual transactions, or agency theory, which stresses contracts.

22 In independent ways, the following writers applied marginal analysis to explain the prices of all factors of production: Alfred MARSHALL (*Principles of Economics*, 1890; London: Macmillan, 1961), John B. CLARK ('The Law of Wages and Interest', *Annals of the American Academy of Political and Social Science* 1, July 1890, pp. 43–65; 'Distribution as Determined by a Law of Rent', *Quarterly Journal of Economics* 5, April 1891, pp. 289–318), Philip H. WICKSTEED (*An Essay on the Co-ordination of the Laus of Distribution*, 1894; London: London School of Economics and Political Science, 1932) and Knut WICKSELL (*Föreläsningar i nationalekonomi*, 2 vols., Stockholm: Fritzes, 1901 & 1906; trans. E. CLASSEN, ed. Lionel ROBBINS, *Lectures on Political Economy*, London: Routledge & Kegan Paul, 1934 & 1935). The problem of 'exhaustivity' or 'additivity', the assurance that the price of the product would allow payment to all the other factors, was solved by using the EULER's theorem, and for a situation with constant yielding at a scale, by the second generation of neoclassical economists, during the last stage of the nineteenth century. The theorem says that if a function $y = f(x_1, x_2, \dots, x_n)$ is homogeneous in degree one, then, $y = f_1 x_1 + f_2 x_2 + \dots + f_n x_n$, where f_i is the partial derivative of the function in respect to x_i .

most. In summary, the market guarantees that labour will carry out the tasks for which it was hired and that the workers will be motivated to do what is expected of them in terms of their contract.

Alchian and Demsetz, who can be considered the heirs of the simplest neoclassical theory of the firm, understand it as a cluster of contracts born out of indivisible technology.²³ This outlook is logically consistent with the idea that social relationships matter to the economy, provided they can be understood as contracts and exchanges. They, therefore, regard it as naïve to believe that the power of the company to fix tasks might depend upon trust, authority, or a discipline different from that of the market.²⁴ This vision rejects the view that the social dimension of a company may generate a capacity other than that of its members, or that extra-economic elements may affect results.

Finally, according to the definition of neoclassical agents, economics is an autonomous field of human activity. The market allows the agents to satisfy their always-coherent economic objectives; the same market, therefore, allows them to fulfil their aspirations in the best possible way in each moment, the available knowledge being the only fundamental limit to production, as well as to personal satisfaction.

Regarding the Austrian school, we should distinguish between the perspectives opened by its founder and the way followed by his disciples. One of the most characteristic aspects of Carl Menger is the subjectivity of the agent as the key to explaining all complex economic processes. The desire to satisfy individual needs is, for Menger, the elemental unity from which all explanations flow.²⁵ His theoretical approach allows one to consider a multiplicity of needs that the agent tries to satisfy through the best possible subjective plan. With this premise, production, understood as a special economic process, becomes a connection between human needs, on one hand, and the objectives and means the agents have discovered to satisfy them, on the other. But, in what we call the second generation of the Austrian school, the economic system becomes objective. In his analysis of the firm, Eugen von Böhm-Bawerk focuses

23 Armen A. ALCHIAN and Harold DEMSETZ, 'Production, Information Costs, and Economic Organization', *The American Economic Review* 62, 5, (1972), pp. 777-95.

24 Cf. *Ibid.*, p. 777: 'It is common to see the firm characterized by the power to settle issues by fiat, by authority, or by disciplinary action superior to that available on the conventional market. This is a delusion. The firm has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between any two people.'

25 A very suggestive analysis about the peculiarities of Menger's analysis and its continuity over the development of the Austrian school can be found in Sandye GLORIA-PALERMO, *The Evolution of Austrian Economics: from Menger to Lachmann*, London: Routledge, 1999.

on the technical aspects of production,²⁶ relegating the complexity of the different dimensions of human subjectivity to a secondary position. Even so, objectivity appears in the fact that businessmen decide how to direct production, not according to the expectation about consumers' needs, but focusing on prices, which are signs of business opportunities. In summary, the system evolves guided by the logic of the profit motive.

Ludwig von Mises, a member of the second generation of Austrian economists, stands out for having recovered the subjectivity characteristic of Menger. Despite his being subjective in a certain sense, his conception of human motivation does not allow him to develop all the potential offered by the founder of the Austrian school. For Mises, the function of producers is to respond in the best possible way to the will of consumers, reflected in the price structure. The productive facet of human action thus becomes objective and separated from the person: men as businessmen and workers are exempt from all moral responsibility in what they do. Their task is to obey the will of the consumers.²⁷

Businessmen are after profit, and obtain it by docilely serving consumers. Israel Kirzner, Austrian representative of market theory, argued that nothing in the theory limits it to individuals chasing material profits or excludes moral imperatives or moral restrictions. Although the external appearance of all firms is identical, because all aim at profit, the visions and the dreams that motivate them can be very different, and they are the prime force of the market process.²⁸ All the same, the aims and dreams of businessmen – which I call personal – are interesting from the perspective of market theory and should be channelled through obtaining profits. Profit is, therefore, the economic objective that allows satisfying the aspirations of the businessman and, at the same time, proves that the other members of society value his contribution to the common good. Maximum profit coincides, therefore, with maximum consumer satisfaction, and hence social equilibrium. According to Mises, in other words, the search for profit coincides with the search for social equilibrium.

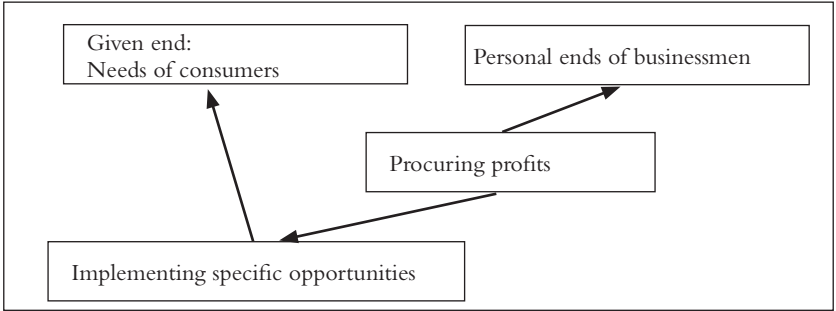
26 See Erich STREISSLER, 'To What Extent Was the Austrian School Marginalist?' *History of Political Economy* 4, 2 (1972).

27 This idea is found in Ludwig VON MISES, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus*, Jena: Fischer, 1922; trans. Jacques KAHANE, *Socialism: An Economic and Sociological Analysis*, London: Jonathan Cape, 1936, p. 443; and *Human Action: A Treatise on Economics*, New Haven: Yale University Press, 1949; 3rd Rev. Ed., Chicago: Henry Regnery, 1963, pp. 269–72.

28 Israel M. KIRZNER, *The Meaning of Market Process: Essays in the Development of Modern Austrian Economics*, London and New York: Routledge, 1992, p. 208.

In Table 2 we have summarised the place of the different types of ends entailed in the Austrian market theory. The ultimate end of economic activity is the satisfaction of consumers' extrinsic needs. On the other side, businessmen's personal ends, of no interest to the economy, are channelled towards procuring profits. Last, come the specific ends of firms, the production of a certain good or service to satisfy the needs of consumers and procure a profit. It is up to businessmen to discover the need to which they should direct their activities.

Table 2: Ends according to the Austrian Theory



In the final analysis, since the problem of ends is omitted, the economy is exclusively about means, as in the neoclassical model. The firm, regarded as a structure of means, continues to be a problem to the intellect. The main difference between the market process in the Austrian and neoclassical schools that makes the former subjective is that the Austrian theory does not assume the existence of knowledge. An objective fact does not guarantee an objective answer. Hence, in the Austrian school, the most important thing in the firm is the businessman, whose role is based on his superior motivation and superior skills to discover opportunities that have not yet attracted other economic agents. The businessman is the one who identifies the ends and the means to attain them, while the facilitator is the one organising production so as to attain the pre-determined end. Because the businessman is the most relevant element in the market, the firm is not studied independently. Since we are all businessmen in a way, we all share the same motivation; the profit motive is the universal incentive that bridges the economic world of pure means and that of aspirations.

4. **A MULTI-DIMENSIONAL VISION OF THE PURPOSE OF BUSINESS**

If we move from considering man from the economic angle as a schemer who tries to accumulate as much power, pleasure, and material wealth as possible to considering him as a whole, incarnated spirit who undertakes productive activities as a means to reaching imperfectly defined vital aspirations, there results a different way of understanding economic action in general and the dynamics of firms in particular.

An important consequence is that, generally speaking, it is not possible to separate the different elements and analyse the properties of an imaginary ‘homogeneous’ part made up of similar means and ends. The economic side of a plan of action cannot be radically separated from its non-economic side. Money or no money, the activity is one. Consequently, economic analysis becomes more complex. A specific manifestation of the fact that it is the whole man and not just part of him that produces wealth is that the ends of the firm and of work cannot be defined exclusively in monetary terms. Although the production of wealth or its monetary equivalent is the basic motive for this kind of action, neither the manager nor the worker can put aside his being human while working. Man cannot halt its vital course to retake it once it has procured the external goods he intended to get by working. It is, therefore, necessary to consider other motivations.

Since I have found no economic theory model explaining business behaviour other than the autonomous one, I have directed my investigation to the theory of organisations. Juan Antonio Pérez López offers an analysis of business behaviour that allows the rescue of the Mengerian perspective, in the sense that it links the explanation of economic phenomena to an analysis of the human needs at the root of the action. Human motives to participate in a firm – as businessman or as employee – can be grouped into three categories that must not be confused with or separated from each other. Those who study business organisation distinguish broadly between ‘extrinsic’ motives, referring to rewards or punishments from outside, and ‘intrinsic’ motives from inside of personal action.²⁹ Pérez López adds a third type of aspirations or motives. He calls them ‘transcendental motives’, or a set of aspirations

29 Douglas MCGREGOR introduced the difference between extrinsic and intrinsic factors (*Leadership and Motivation*, Cambridge, Mass.: The MIT Press, 1966, pp. 259 ff.). The most universal extrinsic motive is money. It is the one usually considered in orthodox economic theory, because it is generally equivalent to worth. The meaning of achievement, learning, and satisfaction for responsibility are examples of intrinsic motives.

deriving from the social nature of the human being and incorporating the concern for third parties.

Within the aim of this paper, the most interesting conclusion from considering the existence of three types of motives is that not all business activities are equally viable in the long run. If the aim is harmonious and sustained development, the aims of the firm should be defined according to the three types of motives, not just one of them. Concerning Max Weber's theory, Pérez López shows that it is not possible to succeed in the long term independently of the type of aspirations that orient the activity. Human nature demands a minimum presence of the three motives that should be respected in the personal relations and in the organisations set up by the agent.

On all occasions, economic activity has had results in the three fields mentioned. We cannot forget that, besides the extrinsic results sought, either the active or reactive agent³⁰ feels certain changes inside himself resulting from the action. Such changes will be significant for the next step. Therefore, any decision taken by a manager should be evaluated not only by criteria of 'efficiency' that measure the impact of the decision on profit, but also by criteria of 'consistency' that take into account the effects of possible learning in the intrinsic and transcendental motivations. Pérez López shows that positive change or learning in the strict sense is not guaranteed. (This is a possibility that casts doubt on many dynamic economic theories.) On the contrary, the agent can experience 'negative learning' in such a way that the subjective importance of some result may be increasingly at odds with its real influence in the processes of interaction.³¹ It would be increasingly difficult to attain its objectives. Economic learning³² allowing increasing satisfaction is tied to a progressive discovery of values affected by decisions that make it possible to define objectives more consistently.

As the Austrian market theorists expound, satisfaction of the monetary motives of manufacturers is subject to the fulfilment of an

30 The relationships of the worker whose actions we are analysing are called 'active' and 'reactive' agent.

31 Juan Antonio PÉREZ LÓPEZ, *Teoría de la Acción Humana en las Organizaciones*, Madrid: Ediciones Rialp, 1991, p. 55.

32 I understand that, in a way consistent with the integrated conception of economics as described in the first part of this article, economic learning should be defined as the change in the means or objectives, in such a way to expand the possibilities of action, adding at least one option better than the previous ones. A deeper study of this concept and its analytic possibilities can be found in ULLATE (*El Sentido del Cambio Económico*, unpublished doctoral thesis, Autonomous University of Madrid, 2002; 'Hacia una teoría Económica más humana: el aprendizaje económico del homo viator', *Revista Empresa y Humanismo* Vol. VI, No. 1 [2003], pp. 199-217).

‘external mission’ or satisfaction of the extrinsic needs of consumers. The usefulness of the product or service is what leads consumers to contribute to the organisation by paying the price demanded. These contributions reward the manufacturers and motivate them to collaborate with the organisation as established in the formal system.

Pérez López, however, differing from those authors, takes into account that manufacturers can contribute to the organisation, not only with extrinsic motives, but also with intrinsic and transcendental motives, which also generate profits for consumers and influence the monetary contributions they may be willing to make to the firm. Finally, the non-monetary side of the firm’s dynamics influences the monetary side. To overlook this may have grave repercussions.

According to Pérez López’s thought, the value of a firm has three dimensions. Besides its ‘efficiency’ or capacity to obtain profits that allow the satisfaction of the extrinsic motives of the participants, it should be valued according to its capacity to satisfy the social and learning needs of the participants, what he calls ‘attraction’, and according to its ‘unity’ or capacity to satisfy transcendental motives.

The most sophisticated orthodox theories take into account only the ‘efficiency’ and operative learning of the participants, for as long as it allows greater future ‘efficiency’. But they forget ‘unity’. This expresses the degree of identification of the members of an organisation with its efficiency, explains the spontaneous orientation of activities towards such efficiency, and results in the transcendental motivation of manufacturers, now able to identify the needs of others (of consumers) with their own (of the organisation as a whole). This ‘unity’, although an essential factor of future efficiency, depends on two motives that could be considered ‘beyond economics’:

1. The organisation should reach its efficiency through the satisfaction of real needs.
2. People should be able to act out of transcendental motives. Given the value of objectives, the degree of unity will depend upon the manufacturer’s possible transcendental motivation.

In the light of this three-dimensional frame, we can ask ourselves what course of development should characterise a firm as defined by the orthodox economic theories.

Let us assume that a firm, in a given environment with particular management and staff, has chosen an ‘external mission’ that responds to a real need of consumers. If it is viable and circumstances do not change, how will it develop as a consequence of its activities? Each one

of the entrepreneurial plans³³ that belongs to the production set, it should choose one that fulfils three requirements:

First, it should be 'possible'. What is intended should be compatible with the knowledge and operative capacities of both consumers and manufacturers. This is what defines what the firm can do.

Secondly, the plan should be 'feasible'. Since it is a motivational feature, both manufacturers and consumers should be willing to aim at a definite objective. If the objective is operationally possible, the ability to implement it will depend upon its compatibility with the motives³⁴ of the participants.

Once there is an operative definition that is possible and feasible, the plan should also be 'competitive', meaning that the environment should not offer potential participants opportunities better than cooperating with the organisation.³⁵

Finally, if the environment and the usefulness of the service are assumed to be constant, the feasible actions of a firm at a particular moment will depend upon the internal qualities of the participants: on one hand, knowledge and operative capacities that will determine what the firm can do; on the other hand, the motivational structure that will determine what the firm wants to do. The actions of the firm will impact on the inner qualities of the participants and will change what they can do.

The neoclassical and Austrian theories, while supposing that the motives for participating in business are exclusively extrinsic, link the business dynamics to the development of knowledge and the operative capacities of members. These allow a better identification and implementation of business opportunities. They focus on the 'possibility' of business and take the motivation for granted. However, by analysing that particular case within the broader frame defined by Pérez López, we can see that, although the number of possible business activities increases thanks to a greater operative knowledge of the participants, the number of feasible actions can diminish at the same time.

33 Each organisational plan will be an application of scarce means to specific aims, associated with results in the levels of value of the firm.

34 For example, the greater the weight of the transcendental motives of manufacturers, the greater the influence of the real usefulness of the service in its motivation to co-operate (PÉREZ LÓPEZ, *Teoría de la Acción Humana en las Organizaciones*, p. 238).

35 Cf. PÉREZ LÓPEZ, *Fundamentos de la Dirección de Empresas*, Madrid: Ediciones Rialp, 1993, p. 238.

The greater efficacy, often the result of external changes, is usually the result of some kind of organisational learning.³⁶ If the motives of the participants are fundamentally extrinsic, the more the knowledge, the more difficult the control³⁷ and, therefore, the greater will have to be the incentives to continue cooperating rather than leaving. As a result, it may happen that individual operative learning helps the worker, without increasing the efficiency of the firm. Only if the agent has transcendental motives and these are acknowledged by the organisation, will his greater knowledge increase his efficiency. A decision eroding the unity of the firm will split the personal aims of the organisers. The spontaneous actions (formally not required) will move away from the ends of the organisation – which are the expression of the common interests – towards exclusively personal ends. This kind of behaviour makes the necessary coordination of personnel towards the efficacy of the organisation difficult, while favouring opportunistic behaviour. The fastest case of negative learning is that which favours improvement of operative knowledge, but harms unity. Operative learning does not necessarily benefit the organisation and does not necessarily result in increased feasible activities. In this way, to attain greater efficiency in time, it is necessary to look after the social and moral factors. In summary, not only are profits a narrow objective in comparison with the potential for human satisfaction, but excessively concentrating on potential returns could decrease profits in the long run. To attain harmonious and sustained development, the firm, besides efficacy and efficiency, should assess the effects on its unity as a consequence of certain activities.³⁸

5. CONCLUSIONS

Man, as incarnated spirit, unfolds his integrated unity of matter and spirit in a plurality of activities. Such activities, some of which are economic and particularly business activities, are directed at achieving a meaningful life. It is not enough to study in isolation economic human activities, which not only depend upon extra-economic elements for their final aims, but are also intimately united to them.

36 Instead, the simplest neoclassical models analyse its reaction to changes in the environment, assuming as constant the internal status of the agents.

37 In words of PÉREZ LÓPEZ: 'The greater the operative learning of manufacturers, the more necessary its coordination through a spontaneous system, that is to say, through their own initiative and moved by their interest in solving the problems of other participants. This demands that they operate out of "transcendental motives"' (*Fundamentos de la Dirección de Empresas*, p. 154).

38 *Ibid.*, p. 143.

This necessary integration of economic activity should be reflected in the firm. It should not only pursue profits, but should also formulate aims related to the intrinsic and transcendental motives of the participants.

However, although the integration of the human person in his being is a datum, the integration in his operating is the work of freedom. The ethical duty of man is the duty to integrate the human person into a unity and order his or her various parts. Starting from this general framework, in which the economic aspect appears as an integral part of the pathway towards a meaningful life, the neoclassical and Austrian theories represent particular cases of economic analysis. There, the human person lacks integration. His economic side corresponds to bodily dynamics, with a life that is not only autonomous, but also enjoys undue importance. Hence the profit maximisation motive as the main aim of business. This theoretical understanding of economics has much to do with the undue importance given to money, which, as Simmel understood it, is the symbol of the modern age, the most perfect expression of its spirit.

Given that, in general, social relationships are decaying daily and are increasingly viewed from the monetary angle, it may appear that the conventional theories are increasingly convincing. However, this process has a limit. Pérez López shows that, although the objectives may be extrinsic, human nature demands that the organisation allow a minimum satisfaction of intrinsic and transcendental motives to subsist. Otherwise, the unconscious learning of agents will bankrupt the business for lack of a programme that interests all the participants equally. In any case, assuming all other factors constant, the unity that is born from the transcendental motivation of the participants generates trust and, with it, a greater transcendental satisfaction of the participants and the possibility of greater efficacy.

Finally, given that integration in action is the result of freedom and an ethical duty, it is not an automatic mechanism, but the result of continuous work. Setting and implementing aims, not only from the point of view of efficacy, but also from that of their possible attraction and the greater unity they foster, entails voluntary learning by the participants that is not free from personal sacrifice.

Translated from the Spanish by Carlos Sotz and Silvano Borruso

THE GERMAN WAY: THE FREE-ENTERPRISE SYSTEM – DAILY STRUGGLE BETWEEN CAPITALISM AND SOCIAL RESPONSIBILITY

PETER SCHIWY

1. FEATURES OF THE FREE-ENTERPRISE SYSTEM

‘You learn by your mistakes!’ a German proverb says. The bitter experience of the National Socialist Hitler-regime between 1933 and 1945, which was so very painful to the country, to Europe, and to the world, motivated courageous German scholars, even before the end of the war, to plan for the introduction of a basic economic order that would stop social strains, and thus political radicalism, after the end of the war in a liberal Germany. They understood that the economic crisis of the years before 1933 and the following impoverishment of large portions of the population had led to the rise of the National Socialists in the first place. Influenced by the thinking of Friedrich August von Hayek, who later won the Nobel Prize for Economics, but also by Catholic social philosophy, which places solidarity in relation to the liberal self-responsibility of the individual, these scholars created an ideal that found its first expression in both practical action and the principles of the German constitution, i.e. the Basic Law for the Federal Republic of Germany, which is still valid today. The constitution also followed in this sense Hegel’s philosophy, which established the idea of the morality of the state.

On the one hand, this constitution guarantees – and thereby officially protects – private property and the freedom to choose one’s occupation. It reminds the state of its duty to create suitable structural conditions, within which the free enterprise system can develop, and thus prepare the foundation for all other social developments concerning civilisation. On the other hand, the Basic Law clearly abandons those economic concepts of laissez-faire capitalism in which all state intervention is rejected and the free play of forces must be the exclusive operational mode of economic life. Article 14, Paragraph 2 of the Basic Law states that ‘property entails obligations’, and continues, ‘its use shall also serve the public good.’ According to Article 20 of the Basic Law, ‘the Federal Republic of Germany is a democratic and *social* federal state’ (emphasis added).

Another constitutional pillar for such an economic order of the free enterprise system in social responsibility is formed by the right of

freedom of association, which is guaranteed under Article 9, Paragraph 3 of the Basic Law. This means that employees may form trade unions and that employers are correspondingly entitled to form associations.

The challenge is thus to bring the interests of the individual in economic freedom of activity into balanced harmony with the interests of society.

1.1. ENTREPRENEURIAL INITIATIVE AS THE CORE OF THE FREE-ENTERPRISE SYSTEM

Free competition, as a beneficial discovery procedure with positive social effect, thereby remains the starting point for the time being. Only the granting of economic scope of action and entrepreneurial opportunities for development can unleash the forces that are able to bring about economic prosperity for society in its entirety by means of individuals' pursuit of individual economic goals.

Within this framework of order, the free-enterprise system establishes, last but not least, the ethical responsibility of the entrepreneur. Individual responsibility and decisiveness are required from the working people. The pursuit of profit is thereby related to the far-reaching satisfaction of the interests of others. Competition is thus no ruthless struggle of everyone against everyone else, but an incentive and comparison of performance and, therefore, a competitive economy which is reasonable to all market participants and which is in the overall economic interest.

1.2. THE PRINCIPLE OF SUBSIDIARITY

Another essential principle of the free-enterprise system is the principle of subsidiarity: On the one hand, there is the ethical responsibility of the business enterprise and the obligation of the state to create structural conditions that correspond with the market and socially balanced structural conditions and, on the other hand, the responsibility of the individual. This principle, originating from Catholic social philosophy, means especially, in addition to the required support of those who are really disadvantaged, also the individual responsibility of those who are correspondingly productive. That is why the individual is, in principle, obliged to provide for himself socially.

Thus, the free-enterprise system also differs fundamentally from a welfare state, which is bound to result in centralism and paternalism of the individual. The latter means, consequentially, a reduction in the freedom of citizens and the consequence is, as a rule, that the economy will collapse sooner or later. In contrast to that, the free-enterprise

system, with the principle of subsidiarity, also relies on performance and solidarity, two elements which are to secure prosperity and justice.

1.3. LEGAL CONFIGURATION

The legal system is, at the same time, both the condition for entrepreneurial activities and the overriding means for the configuration of the social framework of the free-enterprise system principle.

1.3.1. General Issues

It grants predictability and calculability of state actions and assumes a guarantee function vis-à-vis the entrepreneur as regards the investments of the latter. There is nothing more detrimental to the economic climate than uncertainties in the enforcement of vested rights. This includes, in addition, a highly qualified administration, which is strictly committed to the rule of law.

At the same time, the social state thesis of the Basic Law can be effectively honoured only by legal means. The most important condition thereby is that state interventions into the market economy are conducted in a manner that is reasonable and corresponds to the market. They can and shall try to mitigate hardships; however, they shall not anticipate economic developments nor orient them in a certain direction. This is the crucial difference between the free-enterprise system and the socialist planned economy: the actual impulses have to come from the economy and should not be imposed from above.

The legislator has another scope for action in the legislative configuration of the free-enterprise system. The social state principle establishes an obligation of the state to provide for a fair social order, but does not provide any details concerning how to realise this task individually. Especially because of this wide scope for action, the legislature has a particularly high responsibility for the realisation of suitable and reasonable measures.

1.3.2. Labour Law

The main portions of the system of social provision in Germany are dependent upon the working world and the very developed system of labour law. Laws, attempting to realise the purposes of the social state, are thus mainly the regulations of the labour law. The legislative approaches are thereby accompanied by labour law jurisdiction, which represents its own special court branch in the Federal Republic of Germany.

A rule for the realisation of matters of social state concern is, for example, protection against (unlawful) dismissal. According to Section 1, Paragraph 2 of the Protection against Dismissal Act, dismissal of an employee is possible only when it is socially justified, that is to say if pressing operational reasons or reasons in the person of the employee justify it. Jurisdiction defines these criteria very narrowly: careful weighing of the interests of both sides is always necessary and, in the result, it is to a great extent not the decision of employers to dismiss employees.

A mandatory (i.e. imperative) social and unemployment insurance obligation to protect against social risks applies to large groups of people: if an employee loses his job, he is paid approximately 60% of his last salary (§ 117 of the Employment Promotion Act) for a period of one-half to more than two years.

Also covered are the costs of medical treatment and the permanent need of nursing care, as well as the costs of permanent incapacity to work because of sickness. In addition to that, the legal social insurance includes pension payments after the end of the working age, which is normally the age of 65.

The cost of the relevant insurance is borne either partly or fully by the employer. In total, it can amount to almost half of the gross remuneration.

Furthermore, the establishment of co-determination for employees in business firms, which has found expression especially in the Works Council Constitution Act, originates last but not least from the efforts of the German trade unions. The works council, which must be established by every company with more than five employees, has to represent the employees' interests in the company. Its task includes, on the one hand, the recording of complaints and the supervision of compliance with provisions protecting employees. In addition to that, certain in-company measures are permitted only with the works council's consent and this, for example, includes measures of in-company order (the prohibition of smoking, etc.), the determination of the beginning and end of the working day, the temporary reduction or extension of the working day, the determination of holiday times, etc.¹ Furthermore, the works council is entitled to be informed and consulted about technical changes in the company or in the working processes.²

1 § 87, I of the Works Council Constitution Act.

2 § 90 Works Council Constitution Act.

1.3.3. Welfare Aid

The claims of citizens to welfare aid are also based on the social state principle. Those who do not possess any other source of income for covering their subsistence are entitled to it. Welfare aid includes mainly support towards subsistence of about 300 Euros per month and support for maintaining one's apartment. The purpose is to provide for a humane life for the recipient of the support.

1.3.4. The University System

The educational, especially the university system, can also be seen as a manifestation of the modern social state. Attendance at German state universities is practically free of charge. The Federal Law concerning the Promotion of Education and Training provides, in addition, for grants for needy students. The allocated sums are to be repaid after a long time, and then only in part.

1.3.5. Cartel Law

Cartel law assumes a special position, with which it, however, intervenes in the power of disposition of the individual entrepreneur. It aims less at the socially compatible composition of the market economy and more at guaranteeing the functioning of a market-economy system as such. This is the case, because competitive diversity only exists where it also includes the illegitimate influence of private interests on the free play of market forces – as, for example, in the form of cartel agreements. But also here it becomes apparent once again that a liberal economic order does not simply legitimise itself through the assertion of individual interests, but instead receives its justification from the greater use for the economic totality.

1.4. SOCIAL STATE REALITY

Of course, the legal configuration and the judicial branch belonging to it represent only a part of practised current social welfare state order. At least as important are additional factors, such as the self-perception of people regarding their social order, the position of the country in the international political and economic structure, and the various forces effective within a society.

With regard to the latter, a part has already been briefly mentioned: the German trade unions. They have an influence on the German economy and politics that can hardly be underestimated. The German Federation of Trade Unions (*DGB*), the umbrella organisation of all German unions, which is – unlike, for example, in the United States – centrally organised,

represents the largest trade union organisation in the world. Collective negotiations are conducted every year between its individual associations and the employers' associations of the individual branches – i.e. as a rule no individual firms – in which binding rules are established on work conditions, such as the wage level, etc., and the established rules are then, in principle, universally applicable throughout Germany. Especially by their united front, the trade unions have, when compared internationally, an enormously strong bargaining position, which is definitely at eye-level with that of the employers' associations.

2. CURRENT AND FUTURE FREE-ENTERPRISE SYSTEM CHALLENGES

A textbook on employment protection from 1980 states: 'The legal configuration of employment protection has reached a certain peak'. Indeed, the question is justified whether some social achievement is not more damaging than useful to the interests of those it tries to protect: also and especially the socially disadvantaged portions of the population. Particularly, the high ancillary wage costs – mainly for the financing of social security, such as pension, unemployment, and the need for nursing care – have a restraining effect on the ailing labour market. Especially the legal pension insurance, accounting for the highest portion, cannot, in all probability, be maintained in view of the demographic developments in Germany. The fear that once an employee has been hired, he cannot be dismissed in spite of inadequate performance or only in a lengthy and expensive labour court action, to include severance pay, also makes employers reluctant to employ additional personnel. The lack of jobs resulting from this not only causes material and intrinsic damage to the individual job-seeker, but also entails further-reaching economic disadvantages: those who do not earn money cannot spend any and drop out of the business cycle. The economic strength of the country decreases and the consequence of this is the additional reduction of staff.

The welfare aid and unemployment insurance system intended to mitigate undue hardships for those who became needy through no fault of their own is, in addition, faced with widespread abuse: a considerable number of people are more than willing to make do with 60% of their former salary for some time when they do not have to work for it. Also, for those who are entitled to receive social benefits, the prospect of lifelong support by the state may be reason enough for many not to try to get themselves out of their desperate situation. The unjustified use of benefits by black market labour is another problem. The consequence of this development, especially in the area of social welfare benefits, is

that the solidarity system is extremely at risk and threatens to drift into a spiral of debt that seems to be never ending.

The instruments of co-determination, which were once mainly intended as a means against the arbitrariness of employers and the safeguarding of social harmony, are now often obstacles in the way of innovative and flexible entrepreneurial decision-making. In addition, the various co-determination institutions incur quite considerable costs, because of the requirement to give participating employees time off and because of considerable organisational efforts.

German universities are overcrowded and the average term of studies is longer than in other countries. Part of the explanation is the especially comprehensive German curricula. Another part is simply a lack of performance checks and various privileges and exemptions that the status of student offers in daily life – particularly the opportunity to take on temporary work for which social contributions are reduced – which are obviously adequate incentive to large segments of the young population to thus escape the hardships of a regular working life for some time – often, without ever completing the envisaged degree. The damage that is thus caused to the economy by the deprivation of manpower and the raking in of social security benefits is considerable. Moreover, the person concerned does not benefit in the long run from organising his life in such a manner.

Stopping the relevant developments has nothing to do with the reduction of social security benefits, but with responsibility for the community. The importance of a society's self-perception has already been addressed: a renewal of awareness for the values of the free-enterprise system is necessary. This must be the central idea of every reform that the Federal Republic of Germany urgently needs, the market economy of which was once exemplary.

Legislation must be oriented once again to correspond to the market and, consequentially, has to correct developments that are fundamentally wrong, e.g. in the area of co-determination, which does not take into account the interests of employers and employees in a balanced manner. Social security contributions must be reduced – just like taxes in general.

The escape into quasi self-employment, which is increasingly observed in recent years, in which a gainfully employed person, who is *de facto* an employee, appears officially to be a legally independent businessman, is no solution, but rather the most evident symptom of an ailing work and social system. In this way, achievements of the social welfare state that make sense threaten to be sacrificed to a false apparent

capitalism. Legislatures and jurisdictions combat its relevant excesses with justification.

As commendable as the efforts of the labour courts are for an equitable social order (system), a turnabout is nonetheless also indispensable in jurisdiction. Many judges have pushed their law-and-order duties too much into the background and understand themselves as (some kind of) social engineers, who are of the opinion of having to bless mankind with welfare state alms. This has led, on the one hand, to fractures, especially in labour law, but also includes a principal problem, on the other hand: the erosion of principles founded on the rule of law, which are to guarantee the predictability and calculability required for the economy – to include that of the courts.

But the revival of the free-enterprise system values is also necessary for business enterprises themselves. That market model is confronted here by entirely new challenges, given the background of globalisation and the internationally important information society. This development makes it indispensable to focus increasingly on the socio-political role of business enterprises. With internationalisation, which is inevitably accompanied by a reduction of regulation competences of the state, firms will have increased scope for actions, but along with this also more ethical responsibility. It is, for example, in a glaring contradiction with this ethical responsibility if managers of merging enterprises grow rich at the expense of shareholders, employees, and customers by means of severance payments in multiples of millions. Moreover, the emerging free room for activity has to be filled with basic free-enterprise system values, in order to be able also to respond effectively to one-sided ‘shareholder-value thinking’, with all international interdependence in the sense of a reasonable social balance. According to the free-enterprise system concept, a ‘trade-off’ between performance and solidarity is not to be allowed, because with all seeking for pressing economic adaptation to future challenges, it should not be forgotten that Rousseau’s understanding of people living together in community is based upon a *contrat social* resulting from mutual dependencies, which can still claim full validity today, as well as for the future.

WHICH BUSINESS MODELS FOR SUSTAINABLE DEVELOPMENT?

MICHEL ALBERT

Since the 1980s, two models of capitalism have tended to oppose one another. The first model is centred more and more on continental Europe and, especially, on the Rhine region. It considers the business enterprise to have social responsibilities and, consequently, to pursue multiple objectives. This type of business enterprise starts off from *partnership pluralism*, aspiring to reconcile the interests of customers, shareholders, workers and, to a certain extent, the environment. The second model, developed primarily in the United States of America, starts off instead from a sort of *shareholder monism*. It regards the firm as essentially a thing, a piece of property, a bundle of shares, whose value must be maximised, in keeping with the formula of Nobel Prize laureate Milton Friedman: 'There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.'¹

In the course of the last decade, the Rhine model has been constantly backing down in the face of the new model of Anglo-Saxon origin. Apparently, one could even speak of a 'Rhenish requiem'.

Yet, paradoxically, it is via the United States themselves that the present trend of sustainable development sends back to us new models of the business enterprise, so-called 'socially responsible' firms. Better, in this area, Europe seems to be making up for lost time. To be sure, business enterprises that are truly adept at sustainable development are not yet well known, but they are the ones that seem to respond best to the newly arising questions of quality posed by customers and civil society. Moreover, the firms that are thus engaged in socially responsible investment count among the best performers and those most open to the international challenge. In short, their executives are often inspired by a sort of ethical calling. It seems to me that one could reasonably wager that the multiplication of these initiatives will increasingly open up into new social perspectives of market economies.

1 Milton FRIEDMAN, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962, p. 133.

The notion of sustainable development has been increasingly inspired by non-governmental organisations (NGOs) and elaborated in a public, international setting that does not directly involve business enterprises. One may remember the founding definition of 'sustainable development', given in 1987 by the report of the World Commission on Environment and Development, which bears the name of Gro Harlem Brundtland, Prime Minister of Norway: 'Sustainable development' is 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'² This text, as one can see, is set against a worldwide and multi-generational background, which seems to extend far beyond the present horizon of business firms.

Nevertheless, three years later, in 1990, approximately fifty business leaders from around the world met to create the World Business Council for Sustainable Development (WBCSD). The central idea of this initiative was that – contrary to what the Club of Rome, followed by a number of ecological movements, had been claiming since the 1960s – there is, in fact, no contradiction between economic growth and environmental protection. On the contrary, these business leaders affirmed that the two are inseparable. Consequently, some started taking the three dimensions of sustainable development into account: economic growth, social progress, and ecological responsibility.

A new, fundamental stage for the involvement of certain business enterprises in sustainable development was entered in September 2002 at the Earth Summit in Johannesburg, which had the same words, 'sustainable development', as its sub-title. In fact, it transpired at this meeting, where more than 800 large firms were represented, that the role of business enterprises in this area could take on major importance in conjunction with other major categories of actors: international public organisations, NGOs, and nation-states. Henceforth, the concepts of corporate social responsibility (CSR) and socially responsible investment (SRI), which in some way form the transition to the microeconomic plan of sustainable development, are given the 'key to the city', since these themes were included in the final resolution adopted by the 150 governments represented.

Consequently, it is interesting to ask oneself whether there exist, or whether one can imagine, one or more models of socially responsible firms that have been or would be capable of inspiring the trail-blazers and of contributing to the diffusion, indeed even to the generalisation, of the movement.

2 World Commission on Environment and Development, *Our Common Future (The Brundtland Report)*, Oxford: Oxford University Press, 1987, p. 43.

Unfortunately, these extremely complex questions are too new to have been properly explored – a situation calling for prudence. Nevertheless, I would like to show, in the first place, that large business firms start out from one or the other of two quite different typologies with regard to socially responsible investment, depending upon the countries to which they principally belong: the Rhine model or the Anglo-Saxon model. This distinction, however, does not imply determinism. On the contrary, I believe that I can suggest, as a second step, that the movement of entrepreneurial militancy in favour of sustainable development does not proceed from a predefined upstream model serving as a point of reference, but instead from a flourishing of initiatives, made on the ground, which could eventually lead, in an empirical manner, to new types of social market economies.

1. CAPITALISM VS. CAPITALISM: THE SHAREHOLDER MODEL AND THE PARTNERSHIP MODEL

In the context of my subject, the word ‘model’ has two senses. The first is descriptive: a model is a maquette, a simplified representation. The second sense has a normative character and can be interpreted as designating an example to be followed. I will sketch an extremely simplified maquette, in order to render an account of the conflict of norms, of the ends that set up the two great opposing models of contemporary capitalism: *shareholder* capitalism and *partnership* capitalism or, to simplify further on a geographic basis, the Rhine model as opposed to the Anglo-Saxon model.

This opposition is quite recent. It is barely twenty years old and dates back to the time when the two great Anglo-Saxon countries, the United States and the United Kingdom, with the coming to power of Ronald Reagan and Margaret Thatcher respectively, entered what came to be called the ‘conservative revolution’. Running parallel to this deep change of direction in social, economic, and financial policies, the beginning of the 1980s is marked, in the schema of business models, by reconsideration of what James Burnham had called ‘the managerial revolution’.³ In fact, from the Great Depression of the 1930s to the 1980s, it was commonly conceded, both in American and in Europe, that management professionals, known today as managers – in fact technocrats – are more suited than shareholders to run business enterprises. Thus, in the late 1960s, John Kenneth Galbraith wrote in his famous work *The New Industrial State*:

3 James BURNHAM, *The Managerial Revolution: What Is Happening in the World*, New York: John Day Company, 1941.

In the last three decades there has been steady accumulation of evidence on the shift of power from owners to managers within the modern large corporation. The power of the stockholders, as noted, has seemed increasingly tenuous. A small proportion of the stock is represented at stockholders' meetings for a ceremony in which banality is varied chiefly by irrelevance. The rest is voted by proxy for the directors who have been selected by the management. The latter, though their ownership is normally negligible, are solidly in control of the enterprise. By all visible evidence the power is theirs.⁴

This situation was called into question radically in the United States and Great Britain twenty years ago, notably under the influence of Friedman, according to whom 'the social responsibility of business is to increase its profits'⁵ to the greatest advantage of shareholders. This one point says everything. According to this principle, which can be classified as a kind of shareholder monism, the business enterprise is neither an institution, nor a community, nor even a moral person, but a sort of thing, a simple bundle of shares, whose value on the stock exchange must be maximised. Besides, isn't this maximisation, in the strictly economic order, the most rational way of expressing all such activities? Consequently, it matters little in which sectors and in which countries the firm operates, how it treats its employees and its suppliers, how it behaves towards its social and physical environment. All of that is irrelevant. All that matters is satisfying the interests of shareholders, even if they do not behave as real, stable owners, but only as passing speculators. This concept, known as 'shareholder value', as opposed to 'stakeholder value', was imposed, at first in the United States, in a striking manner under the influence of three main factors: financial deregulation; the spread of real grass-roots capitalism, notably by means of the rapid development of pension funds; and the information technology revolution, which has given rise to what was recently called the 'new economy', presented as the paradigm of the aim of economic cycles and, thus, of an advent of sustainable growth.

The institutional translation of shareholder value is 'corporate governance'. Corporate governance, which is a particularly pressing topic in France today, aims in fact at ensuring the monopolistic control of the shareholders over the managers of the firm, through the medium of the board of directors, especially independent directors. Thus, we are already witnessing a manner of functioning of large business corporations that is radically opposed to the one described by Galbraith. It is a matter of

4 John Kenneth GALBRAITH, *The New Industrial State*, New York: New American Library, 1968, p. 61.

5 Milton FRIEDMAN, 'The Social Responsibility of Business is to Increase Its Profits', *The New York Times Magazine*, 13 September 1970, p. 32.

preventing the managers of the corporation from running it according to their own ideas or personal interests and of demanding, on the contrary, that they behave as unquestioned servants of the interests of the shareholders. Hence, the importance of the general topic of transparency of accounts and, related to this, audit committees, remuneration committees, and the selection of managers. In addition, there is the extraordinary development of financial instruments implemented to interest the managers in the results of the firm and, more generally, to bring their interests into line with those of shareholders: generous rewards, sometimes astronomical, and with the possibility of being obtained as stock options granted with privileged conditions. As against these advantages, the dismissal of business executives, as is well known, is approved unceremoniously. In the new Anglo-Saxon capitalism, the post of chief executive officer is the most precarious. All of this is rigorously simple and logical.

It is a commonplace to say that the reign of shareholders has introduced into the management of business enterprises, and especially of large corporations quoted on the stock exchange, two new constraints. On the one hand, there is a profit objective whose usual reference has risen to 15% per annum, which is obviously unsustainable and incompatible with a growth of the global economy, which is of the order of only 5% per annum, on average. On the other hand, this process of the financialisation of business enterprises often brings with it a priority of the short term over the long term, which works to oppose sustainable development, as the present stock market crisis tends to demonstrate.

It is quite striking to note that this crisis is not only a circumstantial adjustment resulting from the explosion of a speculative bubble, but also, following on the many Enron-type scandals, a crisis of confidence in the virtues of the new shareholder monism.

In opposition to this shareholder monism, which is already triumphant in the United States, continental Europe was offering, about ten years ago, the example of a 'social market economy' (*Soziale Marktwirtschaft*) made up of business enterprises based on a pluralism of partnership. In consequence of this principle, the firm must take into account a 'social interest', in the words of the first Viénot report,⁶ distinct from the interest of shareholders. In fact, its aim is more complex: in its search for qualitative optimisation it seeks to arbitrate the satisfaction of the interests of not only shareholders, but also customers, workers, suppliers, sub-contractors,

6 Association Française des Entreprises Privées – Conseil National du Patronat Français, *Le conseil d'administration des sociétés cotées*, July 1995. The chairman of the working group that wrote the report was Marc VIÉNOT, President and CEO of the banking group Société Générale.

and the environment. This model, which I have called the 'Rhine model', can be found, with many national variations, throughout Western Europe. The most outstanding examples of it are found along the Rhine Valley, from Austria to the Netherlands, passing through Switzerland and, above all, Germany. The German case is the most interesting in this regard, because it is characterised by the most partnership-type institution in existence, namely, equal representation (*Mitbestimmung*) in large business corporations. The German law on equal representation requires that the number of representatives of workers on the boards of directors be equal to that of the representatives of the shareholders (each one having a voting right).

At this stage of the analysis, everything seems to indicate that the Rhine model, based on the separation of powers, the stability of strategies, the primacy of industrial culture over financial culture, and a traditional spirit of shared social responsibility, should be better predisposed to sustainable development than the Anglo-Saxon, shareholder type. Besides, it is perhaps thanks to the influence of its social model that Europe, despite all the weaknesses of its makeup, forms the area of the world that is fighting most for the acceptance of environmental norms in world business and for the recognition of basic social norms on a global scale.

And yet, such a conclusion would be mistaken. In fact, for about ten years, that is, since sustainable development became the order of the day, the Rhine model has been constantly backing down under the effect of several factors. Europe as a whole, and Germany in particular, have been backward in the new information and communication technologies. In the Rhine model, the financing of businesses is essentially ensured by banks – every large business corporation is linked to its 'company bank' (*Hausbank*) – and now, everywhere in the world, banks have lost ground to stock exchanges. Moreover, in the Rhine-type economies, there are awkward and inflexible aspects, whose consequences can be seen in the increase in German unemployment. This is why one can speak of a 'Rhine requiem' at the very moment when the model of partnership capitalism could have revived itself, thanks to the new forms of socially responsible investment. Thus, paradoxically, the involvement of business firms in sustainable development and socially responsible investment has first taken root in the Anglo-Saxon countries, at the very time when their business systems could be considered as giving, to a large extent, priority to the short term over the long term, to volatile quick results immediately rather than to responsible continuity.

2. SUSTAINABLE DEVELOPMENT OPENS UP NEW PERSPECTIVES FOR SOCIAL MARKET ECONOMIES

Isn't responsible continuity an affair of the state rather than one of private interests, and of well-established owners rather than elusive speculators? Isn't the present mushrooming of initiatives announced in view of sustainable development a naïve fad that will fare poorly in the present crisis? The two questions aside, I will advance a predictive hypothesis, according to which – thanks to the efforts that many business enterprises are beginning to achieve in view of sustainable development, especially in Europe – the beginning of the twenty-first century could be characterised by the emergence of new types of social market economies.

One could suppose *a priori* that the long term, the sustainable, would concern public collectivities in the highest degree, beginning with the state, since it is true that, according to the traditional French conception, it is mainly the duty of the state – the 'master of the clocks'⁷ and, consequently, the first one responsible for the general interest – to provide in the long term. The oak trees of the Tronçais Forest in Bourbonnais, planted more than three centuries ago by Colbert, are a symbolic heritage to support this hypothesis. Should the countries most involved in sustainable development then be ruled by states with centralised governments and centralised economies? Absolutely not!

On the contrary, the paradox of sustainable development in that regard derives from the fact that it first offered in the heart of American firms – and at the precise moment when it was successful in the United States, as we have seen – together with shareholder monism, the ideology of 'shareholder value' and, on a more general scale, the ideology according to which 'market is good, government is bad'. If there were only two figures to remember, they would be the following: so-called 'ethical investment', which it is better to refer to as 'socially responsible investment', represents 12% of the savings managed by institutional investors in the United States, as compared to only 1% in Europe and even less in France. Geneviève Féron, the best French expert in the social and environmental rating of business enterprises, could not have trained in France, for the simple reason that such a course did not exist here ten years ago. She trained in the United States, at CalPERS, the famous pension fund of civil servants in California.

The primary explanation of this enormous disparity between the United States and France is that responsible investment takes root in the

7 Philippe DELMAS, *Le Maître des horloges: Modernité de l'action publique*, Paris: Editions Odile Jacob, 1991.

United States in the traditional depth of the network of associations that so struck Tocqueville and that still has hardly any equivalent in France. Socially responsible investment, in fact, adds together the initiatives of all kinds of charitable and religious associations, foundations, universities, but above all the so-called 'ethical' investments of certain pension funds. In this respect, the contrast between the two systems of financing retirement pensions is striking: on one hand, in the United States, the financing of retirement pensions is half assured by capitalisation, that is to say, by the savings of salaried staff, business enterprises, and self-employed workers. In France, on the other hand, the financing of retirement pensions is assured by distribution, that is, by taxation, at a level of 95%. Everyone knows by now that the French system is very risky. This precariousness, this myopic administration of the state in France, is measured by the fact that the public debt has passed from 20% to 60% of GDP in twenty years, which means that, instead of protecting future generations, as Brundtland asked, our present financial management is overwhelming them with debts.

Better still, most American pension funds practise a policy of 'shareholder activism', not hesitating to put pressure on business executives to ensure that the interests of their assets prevail. It must be mentioned, however, that the Rhine model of equal representation is reborn in some way in the United States in the form of this shareholder control exercised by pension funds, which are themselves increasingly sensitive to the influence of retirement pensions and salaried workers who show their preference for so-called 'ethical investment'. This is how CalPERS got thousands of managers throughout the world to dream, since it was enough for it to publish its appraisals of a hundred or so large firms, congratulating some, condemning others, to have an impact that could be decisive for the definition and control of the strategy of an ever-growing number of quoted companies. And this is the case, even if it only possesses a small percentage of shares. That is how CalPERS recently decided to cease investment in companies that could not prove that they applied the recommendations of the International Labour Organization (ILO) regarding social rights and, in particular, child labour and the work of prisoners in some Asian countries. In December 2001, CalPERS even announced that it would massively disinvest in three countries – Malaysia, the Philippines, and Indonesia – because they did not respect international conventions on child labour.

We can now establish the following: on the one hand, there has existed since 1920 an International Labour Organization, founded by the Frenchman Albert Thomas, which brings together on a tripartite basis

the representatives of most countries of the world in view of the progress of working conditions. But this specialized institution, linked with the United Nations, has no legal power to enforce its recommendations. So, we have an instance of a powerless *public* institution whose inadequacies are filled in by *private* initiative in this aspect of sustainable development!

Thus, the Anglo-Saxon pension funds, so often disparaged in France, contribute to sustainable development, both by management rules that prod them to stabilise their investments by means of their positive influence on corporate governance and by means of participation, often active and sometimes innovative, in socially responsible investment.

We certainly should not forget that the United States refused to sign the Kyoto Protocol, whereby the industrialised countries undertake to reduce by 5% in 2010, relative to 1990, their greenhouse effect gas emissions. On the contrary, since then they have increased their carbon gas emissions by 17%, apparently without upsetting the promoters of sustainable development very much.

But should we be surprised? Don't some business corporations make a lot of noise about ethics as a kind of hidden propaganda, or even manipulation? Enron and WorldCom never failed to trumpet their ethical charters?

Besides, one is quite surprised at the ease with which the large, socially responsible indices in Europe welcome business corporations. The three main indices are the Arese Sustainable Performance Index (ASPI), the FTSE4Good Index, and the Dow Jones Sustainability Index (DJSI). Together, they consider four-fifths of the large French companies, those quoted on the Compagnie des Agents de Change 40 Index (CAC 40), to be socially responsible. This is certainly too optimistic an assessment, and can only invite the scepticism of traditional analysts. Thus, the rating agency Moody's recently stated that the environmental behaviour of business corporations has no effect on their share prices. On the contrary, it even thinks that, for the time being, taking the impact of behaviour toward the environment into account in the management of business corporations could be a negative factor for their financial rating.⁸ It is true that, after having often stated that socially responsible business enterprises obtain overall higher financial results than others, we must consider that things operate rather in the opposite direction today. The only sustainable business enterprises are those that are profitable. It is the quality of the financial results that favours participation in the sustainable

8 Jean MATOUK, 'L'environnement et la Bourse', *Revue d'économie financière* 66 (July 2002), pp. 197-215.

development movement, not the contrary. It is like the parable of the talents in the Gospel; the least enterprising stay outside.

Even among the best performing firms, there are many that continue obstinately to pitch camp outside the movement. The Exxon case, the first global producer of petroleum, is spectacular in this respect. Some people remember a famous speech in 1951 by Frank Abrams, Chairman of Standard Oil of New Jersey (which later changed its name to Exxon): 'The job of management is to maintain an equitable and working balance among the claims of the various directly interested groups: stockholders, employees, customers and the public at large.' This sentence expresses the quintessence of partnership pluralism. Today, a half-century later, Exxon displays a policy that is radically opposed to this philosophy. Contrary to its European competitors – beginning with Shell, a typical Rhenish company – Exxon refuses all investment in renewable energies, because they are simple wastages in its eyes. It declares that its exclusive aim is to maximise its shareholder value by increasing its sales of petroleum products at the best price.

The case of Shell deserves further mention here, since this company, after causing an ecological catastrophe in the North Sea and consequently suffering a boycott by its customers, took the lead with new initiatives for responsible development that are helping many European firms today to make up for lost time, relative to their American competitors. Moreover, Shell works in cooperation with several NGOs, such as Greenpeace and Amnesty International.

It is, in fact, striking to see that a new kind of citizen-consumer and citizen-investor is also beginning to emerge in Europe. These people want to know whether the business enterprise trying to attract them treats its workers appropriately, is concerned about the environmental risks it takes, and is respectful of human rights, including the effects of its purchases in dictator states. To be sure, what is known as 'equitable' business is still conducted on a small scale. I am not altogether sure that the coffee we are drinking is actually Max Havelaar, the only brand I know that guarantees a minimum purchasing power to the peasants in Colombia and Brazil . . . but things are certainly moving in the right direction. In France, a group of associations is making a campaign with toy and textile distributors to urge them to demand improved working conditions in the emerging producer countries, especially China. This group assigns ratings to the main French distributors, who have come together to harmonise the criteria used and which have made more than 300 social audits with suppliers in suspect countries.

At a deeper level, many European firms apparently rediscover in sustainable development, with interest, the principles of a culture from which they became detached, only with regret, under the pressure of their shareholders and, especially, their financial analysts. This is why, particularly in Europe, the culture of business and the personality of its managers are of major importance in regard to their social responsibility. Sustainable development always appeals to, and often arouses, a new race of employers, who feel the vocation of long-term founders to convince their partners that the policy of socially responsible investment, often considered counter-intuitive, is at the same time the most human socially and the most effective economically in the long run. This is on the condition that it is not imposed, however, and that its legitimacy is based on the consensus of workers, shareholders, suppliers and, above all, customers.

In every sector, a growing number of the larger business corporations, those that are more exposed to public criticism, increase their efforts in a great expansion of initiatives that are adapted to the particular problems of each sector. Thus, basic industries, which have been pioneers in this area, are mainly concerned about their impact on the environment. In France, eighteen firms, which are together responsible for two-thirds of industrial carbon gas emissions, have agreed to take part in a voluntary project aiming to reduce emissions of greenhouse-effect gases.

More recently, the tertiary sector has followed the example of industry. Most American banks take sustainable development into consideration in the financing they have with their customers. European banks are beginning to go in the same direction. I am especially happy to be able to say that Assurances générales de France (AGF), of which I was president for many years, was the first insurance company in France, in 2002, to be able to place its annual report under the auspices of sustainable development. In fact, AGF is the only French insurance company that enjoys a positive rating from the three 'ethical' indexes – ASPI, FTSE4Good, and DGS – primarily because of its precautionary actions in health matters.

It is true that, for insurance companies, whose job consists in better evaluating risks, socially responsible investment can be a competitive factor. On the other hand, poor management of large industrial risks can lead to public disgrace, customer boycotts, and even the bankruptcy of a faulty business enterprise.

The more a business enterprise expands its activity internationally, the better it must know how to react to the sensitive trends that traverse

the planet. That does not mean that medium-sized firms are exempted from attempting to apply social responsibility, but that they have strong and weak points in this area. The point is that, all else equal, a business firm will be more inclined to sustainable development, the more stable its shareholdings. In the average family business, so dear to my colleague Yvon Gattaz,⁹ what is called sustainability today has always existed and is based to a large measure on stability: stability of capital; financial stability with few debts; stability of industrial and commercial strategy; and stability of plants and personnel, who often tend to form a community, linked by the '*affectio societatis*'. Medium-sized family businesses are immersed in sustainability. They do with sustainable development what Monsieur Jourdain did with prose.¹⁰

To make up for lost time in relation to the United States, several European countries, such as Germany and Belgium, have made some interesting provisions in this area, while the European Commission produced a green paper in July 2001 with the intention of 'promoting a European framework for corporate social responsibility'.¹¹ Great Britain was the initiator of this movement, has had a Minister for Corporate Social Responsibility since March 2000, and adopted a law in July 2000 whereby institutional investors, beginning with pension funds, must publish information concerning the plans they make regarding ethical, social, and environmental objectives.

This double example was followed by France, which, as always, produced a huge amount of legislation in this area, before the new government created, for the first time in 2002, a Secretariat of State for Sustainable Development. In the first place, the Law of 15 May 2001 concerning New Economic Regulations states that the annual report of a quoted company must 'include a list of information, which has been set by decree from the Council of State, stating how the company takes into account the social and environmental consequences of its business activity'. This provision applied to 950 companies in 2002. A similar arrangement was included in the Law of 17 July 2001 setting up the Pension Reserve Fund. But the most important text is the Law of 19 February 2001, called the Fabius Law (after French Minister of the Economy, Finance and Industry Laurent Fabius) on Employee Savings

9 Yvon GATTAZ, *La moyenne entreprise, championne de la croissance durable*, Paris: Editions Fayard, 2002.

10 Monsieur Jourdain, of MOLIÈRE'S *The Bourgeois Gentleman*, discovered that he had been speaking prose all his life, without even realising it.

11 European Commission, *Promoting a European Framework for Corporate Social Responsibility – Green Paper*, Luxembourg: Office for Official Publications of the European Communities, 2001.

Plans, which envisages that fund managers will take 'social, environmental, or ethical considerations' into account in their choice of investments. Regarding sustainable development, there is also a gradation in the condition of employees according to saving: the simple wage-earner, more or less poorly integrated; the investing worker, more responsible; and the associate-participant, the employee-shareholder who constitutes, in the eyes of the market, an index of the correct functioning of the company, via the confidence accorded it by some of its employees.

The entirety of this legislative movement calls for two comments. In the first place, these texts have nothing to do with a planned economy; they do not compel business firms or investment funds to do anything, but only to publish what they do freely. In the United States, on the other hand, a text of an imperative nature has just been adopted, paradoxically, in response to the crisis of confidence resulting from the serious misdeeds discovered in the wake of the Enron affair. The Sarbanes-Oxley Act of 2002 reinforces the supervision of accounting practices. Above all, it demands certification under oath ('I swear...') of the truthfulness of the results presented by company presidents and their financial officers, under penalty of serious penal sanctions. It is enough to recall the juridical import of an oath in the United States to assess the importance of this text. Returning to France, the most characteristic trait of our country regarding business enterprises in the face of sustainable development is certainly not the *legislative* evolution, but a totality of original *private* initiatives of far-reaching scope.

The first of these initiatives is of trade union origin. On 29 January 2002, four trade union confederations – the Confédération Générale du Travail (CGT), the Confédération Française Démocratique du Travail (CFDT), the Confédération Française des Travailleurs Chrétiens (CFTC) and the Confédération Française de l'Encadrement-Confédération Générale des Cadres (CFE-CGC) – announced the creation of an inter-trade union committee of worker investment (comité intersyndical de l'épargne salariale or CIES). They have begun to classify the offers of certain societies of the management of worker investment according to their conformity to specifications that these trade unions have themselves established. The objective is to contribute in this way to the setting up of employee saving funds sufficiently important to be able to have an influence on the social and environmental practices of business firms. We have come a long way, in a country so marked by a tradition of trade unionism that, even if no longer revolutionary, had such a strong aversion to concern itself with anything connected with saving, even worker saving, and investment in capitalist business! It is even more remarkable

that the legitimacy of this trade union initiative has been recognised by the *Mouvement des Entreprises de France* (MEDEF).

The second large private French initiative in the area of the sustainable development of business firms, which is also without precedent, took place this year. It is the establishment of VIGEO, a European social and environmental rating agency, by Nicole Notat. To be sure, the financial and commercial structure of this new agency can make one wonder. But it is extremely significant that Notat, the unquestioned figurehead of French trade unionism, has decided to change careers by creating her own business company and becoming a business leader. All of this makes an original contribution to sustainable development.

There is a third private, French initiative, of global significance: there are three large international financial rating agencies that overwhelmingly dominate the international market: Standard & Poor's, Moody's, and Fitch. The latter, the smallest and youngest of the three, which belongs to the French group Fimalac, established the objective of becoming the leader in the area of social and environmental rating. This is why it has just set up the agency Core Ratings, which is directed by Féron. It is worth noting that the leader in this market, the American agency Standard & Poor's, is preparing to follow Fitch in the same area.

3. CONCLUSION

For about twenty years, the accomplishments of the capitalist economy under the combined effect of globalisation, deregulation, and the information revolution have been so striking that many believed we are seeing the advent of a 'new economy', founded on a new business model, purely shareholder-oriented and entirely subject to the law of profit. This predictive hypothesis gives rise today to an argument that is both social and ecological. However disorderly and incongruous this argument may be, it stirs up public opinion and the media in such a way that an increasing number of business firms feel obliged to take notice, even if only to protect their image. Among them, some resolutely lead the way and seek to promote this reputation by investing in social progress and environmental activities. Without doubt, this is partly a passing fad – but only partly, and even if it is, this fad can also become long-lasting, showing once more that capitalism is capable of regulating itself.

One may be led to conclude that these new tendencies at the level of business firms form part of a wider trend of aspirations of what has come to be known today as civil society. These aspirations invite firms more or less openly to transparency, dialogue, and participation. In short,

they suggest to firms to put into effect, according to the wonderful expression of Pierre Massé regarding economic planning, 'a less narrow conception of man'. One small example among a hundred: when young people leave business schools today and look for their first jobs, they are recommended to mention on their curriculum vitae, if possible, voluntary charitable activities in which they have taken part, particularly any related to development projects in the Third World or social work in poor neighbourhoods.

This updating of the prevailing business model is still frequently quite timid. Its prospects remain uncertain. But it will be just as interesting to observe them in the rest of Europe and the world as in France; corporate social and environmental responsibility reunites to some extent what in the past made up the best part of the European social model.

More generally, it seems essential to note that sustainable development has become, within a few years, a fixed aspect of the strategies of an increasing number of business corporations, especially the larger ones. In this area, the pilot groups should become, sector-by-sector, reference points, the ones that will succeed over time.

Under pressure from NGOs, the media, customers, employees, and the specialised rating agencies, these business firms are induced more and more to express themselves publicly, not only regarding their values – which is the easiest – but also regarding the means used and the results of their activities in environmental and social matters. Starting from there, specific methods of organisation and operation are and will be implemented increasingly and taught in schools of business administration.

All of these changes, inconceivable only yesterday, begin to define new models that are increasingly the result of profound realisations that are at the foundation of sustainable development.

Translated from the French by Martyn Drakard

BEYOND ‘WELFARISM’: TOWARDS A PHILOSOPHICAL GROUNDING OF ECONOMIC THEORY

PAUL MIMBI

1. INTRODUCTION

‘Who shot Argentina? The fingerprints on the smoking gun read I.M.F.’ So goes the title of an article by Greg Palast in *The Guardian* (London), 11 August 2001. Admittedly, that was his considered opinion; yet, isn’t it true that many a cry is directed to the Bretton Woods Institutions for ‘experiments’ gone awry in more than one country? In most developing countries, the underlying dynamics of the economy have been found to lead to non-sustainable balances of payment, budgetary deficits and debt burdens. Often, as an outcome of negotiations with the Bretton Woods Institutions, developing countries have undertaken structural adjustment policies. These policies have considerable social costs, since they entail, in most cases, the removal of privileges from protected sectors, which had been penalising other parts of the economy.¹ It all begins with the panacea: *liberalise*.² They all stand back and watch the development of their wise counsel. More often than not, the situation of the country ends up worse than before. The economy has been forced back into being a mere producer of raw material for export or just a retail market. (These programmes are predicated on the efficiency of the market as the allocative device). So, they reason: how can the market forces allocate resources if the institutions are not there to back it up? Another round of prescriptions: Governance! Accountability! Transparency . . . Then again they sit back and watch. Then come the riots, etc. What is wrong?

Perhaps far too much emphasis is placed on economic efficiency – with no explicit role given to the most fundamental factor: man! *What* [is] man (relating to his identity, essence, nature)? *Why* man (his goal, purpose, reason for existence)? *How* man (the right choice of means to that end)? Besides, we are dealing with a broken humanity. Why not tackle man’s brokenness before we prescribe a nice set of economic

1 Farmers subsidising town dwellers and protection to the profits of protected industry at the cost of export industries are good examples.

2 Normally, IMF and World Bank programmes contain policy prescriptions to free the interest rates or make the exchange rate more flexible (if not fully free – leading to full foreign exchange liberalisation), to remove price controls and quantitative restrictions to imports, and generally to reduce government intrusion in the markets.

rules? Why, even the very perception of economic theory may just not be right . . . Adam Smith was above all a *philosopher*.³ Would this hold the key to our perplexity?

2. THE LIMITATIONS OF TRADITIONAL WELFARE ECONOMICS

Formal frameworks in economics have traditionally been dominated by 'welfarist' criteria such as 'utility'. This concept is generally interpreted in terms of individual 'pleasures and pains', 'happiness' and 'desire fulfilment', while it is commonly operationalised in economics in terms of 'revealed preference' and the observation of actual choices.

Indeed, classical economic analysis counts on essential tools, which form the basis of microeconomic theory; thus the theory of demand, the theory of production and the theory of costs. Economic theory, in turn, aims at the construction of models (representation of the real situation), which describe the economic behaviour of the individual units (consumers, firms, government agencies) and their interactions, which create the economic system of a region, a country or the world as a whole.

The traditional theory of demand starts with the examination of the behaviour of the consumer, since the market demand is assumed to be the summation of the demands of individual consumers. Now the consumer is assumed to be *rational*. Given his income and the market prices of the various commodities, he plans the spending of his income so as to attain the highest possible (individual) *satisfaction* or utility. This is the *axiom of utility maximisation*.⁴ In the traditional theory, it is assumed that the consumer has full knowledge of all the information relevant to his decision, that is, he has complete knowledge of all the available commodities, their prices and his income. In order to attain this objective, the consumer must be able to compare the utility (satisfaction) of the various 'baskets of goods', which he can buy with his income.

3 Cf. John Maynard KEYNES: 'In the second place, as against Robbins, economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgment of value' – 'I mentioned before that it deals with introspection and values. I might have added that it deals with motives, expectations, psychological uncertainties' (excerpted from letters to R. F. HARROD of 4 and 16 July 1938; published in *Collected Writings of John Maynard Keynes*, Vol. 14, *The General Theory and After: Part II: Defense and Development*, ed. Donald MOGGRIDGE, London: Macmillan, 1973; cited in Daniel M. HAUSMAN, ed., *The Philosophy of Economics: An Anthology*, Cambridge: Cambridge University Press, 1984, pp. 301–2.

4 The *principle of utility* ('the greatest happiness – *pleasure* – for the greatest number of people'), which had its empirical basis in the measurement of pleasure and pain, was the brainchild of the somewhat eccentric English philosopher, Jeremy BENTHAM (1748–1832). The principle was popularised by another English philosopher, John Stuart MILL (1806–1873), himself the son of a philosopher (James MILL).

Given the limitations of traditional approaches (see Introduction above), we propose to elaborate a series of proposals for moving the economic agenda forward – beyond 'welfarism' – and for expanding the types of variables and influences that are accommodated in theoretical and empirical economics. Our contributions will include proposals for the concepts of freedom, rationality and utility.

3. BEYOND 'WELFARISM'

This paper intends to elaborate a critique of utility as an informational base for ethical and social judgment. We want to challenge the equation of *rational behaviour* with *self-interested utility maximisation*, the use of *self-interested utility maximisation* as a predictor of individual behaviour, and the use of *choice information* as an indicator of individual preference and value. We want to highlight the limitations of utility information as a basis for evaluating and comparing human interests and of utility-based interpretations of economic efficiency and social optimality.

I hope to be able to 're-engineer' the concepts of *utility* and *rationality*, expanding them to encompass a wider scope of the human endeavour. There should be a way of bringing in philosophical principles about man to *latch in* with time-proven economic principles, so that research on both disciplines is enhanced. Indeed, interdisciplinary dialogue on issues concerning man is mutually enriching. It cannot be otherwise. Man cannot and should not be reduced to *homo oeconomicus*. Nor can he, on the other hand, be thought of only as a being-in-waiting for a life for which matter is irrelevant. We hope that with this we will be able to offer a critique of a society that tends to reduce all *choices*, however profound, to the level of consumer *preferences* and to introduce philosophy into economic analysis. Economic analysis of traditional welfare economics is greatly enriched by a philosophical perspective of the human issues involved. As a matter of fact, economic theory is a logical outcome of a system of propositions concerning the economic actor (consumer) – the goals he sets and the means he uses to achieve them.⁵

4. WHERE PHILOSOPHY COMES IN

Three points of entry of philosophical thinking in economic analysis are quite obvious. In the first place, since the discipline of economics examines decisions and the plans underlying them, it is necessary to

5 Despite all claims to the contrary, it is clear that the three main traditions of economic theory spring from three philosophical schools of thought. Neo-classical theory is grounded on positivism, while German idealism (especially Kant's philosophy) is the basis of the Austrian school. Keynesian economics, however, is founded on Anglo-Saxon realism. A defence of this view is found in HAUSMAN, ed., *The Philosophy of Economics*, p. 28.

understand what decision-makers seek. They seek '*objectives*' and these objectives are objectives of people, not of institutions.

The second point of entry is the need to go beyond the assessment of *utility* and income and adopt a broad view of preferences incorporating the capability to achieve what is really valued.⁶ Finally, we have to grapple with the assumption of *rationality*. Indeed, the consumer is deemed to possess some kind of practical knowledge, which guides him in the decision-making process, given the complexity of the parameters facing him. Objectives, utility and rationality. Let us take a closer look at all this.

4.1. OBJECTIVES AND FREEDOM

It is important to stress that decisions are made by individuals, since it is individuals who run firms and other institutions, and they may either bring in their own agenda or implement that which is stated for the body for which they work. Furthermore, the objective of an institution is itself the outcome of individual efforts to institutionalise a mode of attaining some desired end. Business executives are trained to convert 'insights and decisions into purposeful economic performance. This requires that key decisions be made regarding the idea and objectives of the business, the excellences it needs and the priorities on which it will concentrate.'⁷

Now, these decisions are free. Human activity opens out historically into a multi-directional display of *free decisions*, including economic decisions. But what is freedom? Broadly speaking, freedom is something like an inviolable *interior space* that we all have and lay claim to. Yet more precisely, fundamental freedom could be characterised as *a capacity of a spiritual being to posit (determine) his own act* – rather than purely in terms of the number of options available. It is a capacity to love, for the most radical and all-encompassing human act is love. It is a kind of an individual's outpouring by opening (looking out) and assimilating (receiving into oneself). Freedom is, therefore, inextricably bound up with human agency. (As a *capability*, it must be taken account of in economic analysis). The constitutive elements of freedom can thus be derived from examining free action. The human act has a *subjective aspect* (relating to his or her cognitive and affective elements) and an *objective aspect* (relating to the goals that a person values, desires and has reason to pursue). In the object we recognise a value, respond to it and assimilate

6 According to the classical approach, the consumer has a set of preferences that he seeks to maximise, given his income and market prices

7 Peter F. DRUCKER, *Managing for Results*, London: Heinemann, 1964, p. x; also by the same author: *Management: Tasks, Responsibilities, Practices*, New York: Harper & Row, 1973; *Managing the Non-Profit Organization: Practices and Principles*, New York: HarperCollins, 1990.

it by accepting what seems different and perhaps far-off, but above all higher. It is a limitation if a person is so unresponsive, so closed on self, as not to be able to appreciate and be enriched by a value in art, in nature, in the persons around us. It is also a limitation when a person is deprived of his rights and entitlements.

The main determining factor in the human fulfilment of each one (relating to one's personal physical, mental or spiritual *well-being*) is the appreciation of values (as found in goals or objectives) and of our response to them. The discovery of values – openness and receptiveness towards them – takes place in the surrounding world: values in material things, in (good or bad) events, in art and especially in interpersonal relations with other people. To a large extent, it is a capacity of admiration for others that most makes a person develop. There is a real potential for development in the person who feels 'small' beside someone 'great', but does so without jealousy or sense of frustration or self-pity, being rather inspired to grow himself. For each one's genuine development, therefore, a response to impersonal values is not enough. It is necessary to recognise, discover and respond to personalised values, i.e. as they are found in others. 'Welfarist' informational bases are too narrow to reflect the intrinsic value of freedom and rights, which should be brought directly into socio-economic evaluation.

4.2. UTILITY, PREFERENCES AND META-PREFERENCES

In the traditional approach, it is taken as axiomatically true that the consumer can rank his preferences (order the various 'baskets of good') according to the satisfaction of each basket. He need not know precisely the amount of satisfaction. It suffices that he expresses his preference for the various bundles of commodities.

Nobel Laureate Amartya Sen has proposed an approach in which rational individuals would have both meta-preferences and ordinary preferences⁸. Moral values regarding fairness, liberty, and honesty, etc., make up the meta-preference function and in turn shape the ordering of ordinary preferences. So, for example, a person who has a strong preference for grapes doesn't buy any because of a commitment to justice for farm workers. This approach is also helpful in capturing in formal terms the internal conflict surrounding such personal choices as whether or not to smoke. An individual may simultaneously desire a cigarette (ordinary preference) and desire not to smoke in the first place (meta-preference).

8 Cf. Amartya Kumar SEN, *On Ethics and Economics*, Oxford: Basil Blackwell, 1987.

In effect, human preferences can largely be grouped into three main domains: a desire for a sense of fair play (the realm of *iura* – relating to rights and entitlements and regulated by the virtue of justice); desire for pleasurable goods (*concupiscibilia* – regulated by temperance or moderation) and a preference (fear) for the so-called arduous goods (*irascibilia* – regulated by courage). Haven't we just indicated the mainstay of man's pursuit? Aren't these the objectives that every man sets for himself in every single quest? More importantly, haven't we just singled out the three *axes* that provide the background for our moral judgments, intuitions or reactions?

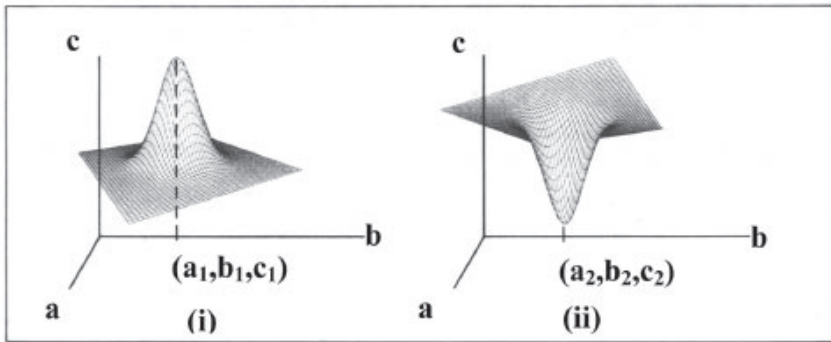


FIGURE 1 Maximum and minimum points.

At this stage one feels drawn to use a spatial metaphor (see Figure 1). The three domains of human agency constitute, as it were, a three-dimensional moral framework orienting one's moral action. But to speak of orientation is to presuppose a space-time analogue within which one finds one's way.⁹ The three domains are equivalent to a three-dimensional space, which together with the time factor constitute the complete framework of human agency. A choice of a course of action within this moral space reveals the fundamental moral orientation of the human agent.

If the consumer derives greater happiness (satisfaction, utility) from any one 'good' located in this moral space, he can increase his welfare by 'spending' more on that 'good' and less on the others until he attains equilibrium. The total utility (*well-being*) increases, but at a decreasing rate, up to an optimum corresponding to a given quantity of the 'good', and then starts declining. This optimum condition is also captured by classical philosophy: it is known as the *golden mean* in the traditional

⁹ Charles TAYLOR, *Sources of the Self*, Cambridge, Massachusetts: Harvard University Press, 1989, p. 15.

moral theory on virtues. In fact, a moral virtue is a habit of optimising choice within the moral space. By consistently choosing the golden mean in all his decisions, man attains his *bonum rationis* (the good of reason): the simultaneously just, courageous and temperate.¹⁰ Real choices take place within this three-dimensional space and not only along one axis, as the utilitarians would have us believe.¹¹ This view argues for a more careful evaluation of how the three main domains of objectives make the decision-maker (consumer, manager) better, as distinct from better off.

Satisfaction derived from any of the 'goods' is, however, never the ultimate pursuit of man. *Bonum rationis* is, in turn, subordinated to a higher goal, happiness, which in a way transcends the utilitarian goal of pleasure. One would be excused if he inferred at this stage that the proper *telos* of business management is happiness, as opposed to owner value maximisation.

4.3. RATIONALITY AND CHOICE

For utilitarians, rationality involves maximising calculations. The consumer aims at the optimum satisfaction, given his resources and market prices. For Kantians, the definitive procedure of practical reason is that of universalisation.¹² The correct approach is to be found somewhere between these two views. To be rational is to have the correct vision or, in the case of Aristotle's *phronēsis* (*prudentia* for the classics), an accurate power of moral discrimination. It is assumed the consumer has full knowledge (even certainty) of all relevant information, which he tries to apply to the case in point. 'This application of the ideal to circumstances assessed in its light is the work of practical reason and, in its perfection, of prudence.'¹³ We are deep in moral philosophy, because this knowledge (insight, acumen, perception) in the realm of *human agency* is the moral virtue of prudence. The prudent choice is optimum, not only because it takes account of the full range of the preferences, but, above all, because it is rational and, therefore, specifically human and value-laden.

10 This is a good holistically considered, not merely a utilitarian good. Consider the case of an overweight man who is on a diet. By choosing to eat a given amount of a revolting meal, he is making a delicate balance between his needs in terms of the quantity of food, the unpalatability of the food and the sense of duty he owes his dependants in terms of a long life of service.

11 The utilitarian homogenous good is articulated in terms of *desire fulfilment*. This corresponds to only one of the axes of our suggested moral space analogue – the axis of the *concupiscibilia* (pleasurable goods).

12 Cf. TAYLOR, *Sources of the Self*, p. 86.

13 Ralph McINERNEY, 'Prudence and Conscience', *The Thomist* 38 (1974), p. 297.

Thus, both an expanded concept of utility and the assumption of rationality point to the need for prudence. In economic behaviour, prudence aims at reconciling 'what is' (fact) with 'what ought to be' (value). *Prudent* economic policy, heavily reliant on models (representation of the real situation), is concerned with how to get from 'what is' to 'what ought to be'. Prudence then becomes the *charioteer* of economic actors (consumers, workers, business owners) and helps shape the way they do economics. It is the paradigm to which all economic behaviour, and indeed any behaviour, must conform. It assesses and then decides on the optimum basket of 'goods' within the moral space before virtue chooses it. It is the all-pervading rational guide in all decision-making processes.

Yet, prudential syllogism is itself dependent upon the permanent dispositions of the consumer, his sense of fairness, his honesty, his trustworthiness, his resolve and courage, his temperance . . . his *integrity*. Virtue thus serves to progressively neutralise the *elements of irrational appetite and passion* in the individual, and thereby increase his self-control or, as economists would say, his *ability to make consistent, rational choices*.¹⁴ This interdependence between prudence and moral virtue gives rise to unity of life, which, in turn, plays a crucial role in the marginal conditions of Pareto optimality. Let us see how.

Pareto optimality is an economics term for describing a solution for multiple objectives. No part of a Pareto optimal solution can be improved without making some other part worse. Figure 2 shows four geometric examples of Pareto optimality. In these figures, the circles represent *objectives* that are best satisfied when the area of the circle is maximised. The *constraints* are that the circles may not overlap and must fit within the triangle. We might further impose a global objective function in this case that is equal to the sum of the circle areas. Only one of these figures is globally optimal, whereas three of them are Pareto optimal. One figure is not Pareto optimal, because the area of one circle may be enlarged without violating the constraints.¹⁵

14 Consider a man who buys a doughnut. Economists usually assume that he is making a rational choice to maximise his well-being: he reckons the benefits of buying a doughnut will outweigh the costs. That would seem reasonable. Yet, now consider the case of an overweight man who eats many doughnuts. Is it still fair to conclude that the immediate pleasure he gets from eating doughnuts is greater than the future cost of putting on weight? Or, does he really have a self-control problem? Cf. Ted O'DONOGHUE and Matthew RABIN, 'Doing it Now or Later', *American Economic Review* 89 (1999), pp. 103–24.

15 Cf. Charles J. PETRIE, Teresa A. WEBSTER and Mark R. CUTKOSKY, 'Using Pareto Optimality to Coordinate Distributed Agents', *Artificial Intelligence for Engineering Design, Analysis and Manufacturing* 9 (1995), pp. 269–81.

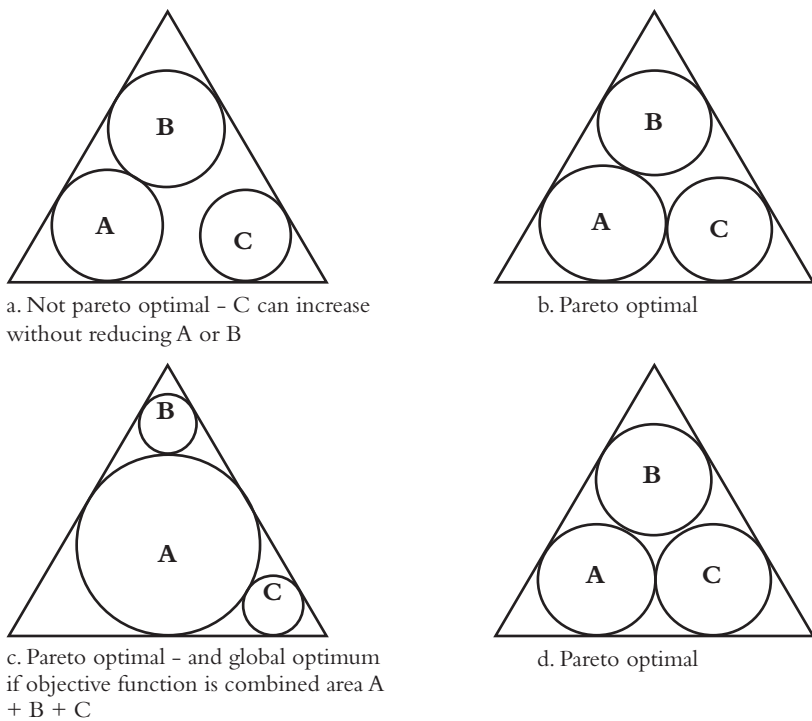


Figure 2

This model can be applied in our case as follows. What we have referred to above as the *bonum rationis* (the good of reason – object of Aristotelian *synderesis*) is the global objective function. The circles stand for the three main domains or realms of human agency, which act like subsets of the global objective function (*bonum rationis*). One is then faced with a case of a multi-objective optimisation, vector optimisation, or multi-criteria decision-making, that is to say, an optimisation with regard to multiple objective functions aiming at a simultaneous improvement of the objectives. The goals are usually conflicting, so that an optimal solution in the conventional sense does not exist. Instead, one aims at e.g. Pareto optimality, i.e., one has to find the 'Pareto set' from which the user can choose a qualified solution. This is made possible in our case, because both moral virtue and prudence aim at the same intermediate objective: *bonum rationis*, albeit in different domains – the former (virtue) in a more specific realm of action (to respect rights and entitlements, to keep a

check on inordinate greed of bosses, etc.); the latter (prudence) in the entire domain of human praxis.¹⁶

What is optimal in whichever domain of consumer behaviour is generally good for the other domains and good for the consumer, because it reinforces the premises of prudential syllogism (rationality), thus creating consistency in the consumer. And what is optimal for the consumer is optimal also for the community of persons to which he belongs (the firm, the state). This is because the firm or the state is a social organisation, in which individuals demonstrate a willingness to join forces in the pursuit of a common goal that does not negate the private goals of the individuals themselves, which is why they join the organisation in the first place.¹⁷ The individual goals are inextricably bound up among themselves and with the common goal that unites the organisation.

4.4. 'RATIONAL HEDONISM' IS NOT RATIONAL

Jack Hirshleifer has succinctly stated the fundamental behavioural postulates on which welfare economics rests: 'Economic man is characterised by self-interested goals and rational choice of means.'¹⁸ Many a person – not only the economist – is likely to view with raised eyebrows the following assertion by a well-known Chicago economist: 'A person is reliable if and only if it is more advantageous to him than being unreliable . . . someone is honest only if honesty, or the appearance of honesty, pays more than dishonesty.'¹⁹

The above utilitarian stand effectively denies that people behave in accordance with the golden rule of *synderesis* (habit of the first principles of action), namely: 'Do unto others as you would have others do unto you.' It can be shown that the underlying rational principle in human behaviour is that each individual should be integrally concerned not only with the pursuit of his own personal interests but also with the promotion of the well-being of as many others as possible. Man finds a greater fulfilment ('utility') by going beyond himself to the surrounding

16 Cf. Paul C. MIMBI, *The Power of Decision: A Critical Study of the Imperium of Prudence according to St Thomas Aquinas*, Rome: Pontifical Athenaeum of the Holy Cross, 1993, p. 30.

17 Juan FONTRDONA, 'Beyond Agency Theory: The Nature of the Firm from a Humanistic Perspective', this volume, p. 63.

18 Jack HIRSHLEIFER, 'The Expanding Domain of Economics', *American Economic Review* 75 (1985), p. 54.

19 Lester G. TELSER, 'A Theory of Self-Enforcing Agreements', *Journal of Business* 53 (1980), pp. 27-44; cited in Robert H. FRANK, *Passions Within Reason: The Strategic Role of the Emotions*, New York: W. W. Norton, 1988, p. 75.

world, rather than remaining within his psyche as though it were a closed system. This denotes the fact that

being human always points, and is directed, to something, or someone, other than oneself – be it a meaning to fulfil or another human being to encounter. The more one forgets himself – by giving himself to a cause to serve or another person to love – the more human he is and the more he actualises himself. What is called self-actualisation is not an attainable aim at all, for the simple reason that the more one would strive for it, the more he would miss it. In other words, self-actualisation is possible only as a side-effect of self-transcendence.²⁰

5. THE 'SCIENCE' OF ECONOMICS (TOWARDS AN ECONOMIC EPISTEMOLOGY)

Let us now apply all of this to the way we feel economic science should integrate ethics into its methodology, rather than merely 'instrumentalising' it.²¹ Methodology is currently one of fastest growing areas in economics. Few serious economists still fail to recognise the centrality, importance and, indeed, inevitability of methodology in economics. All schools, traditions, approaches, methods, etc. are grounded by a philosophy of science of some sort.²²

Indeed, all scientific enquiry moves around the sphere of *experience*, whence it extracts its fundamental *principles*, and further develops itself beginning with these principles, through *logical proof* to obtain an assortment of related propositions which are the *conclusions* of science. Thus experience, principles, proofs and conclusions make up an organic whole, as it were, a paradigm statement, a *Weltanschauung*. Experience, then, is the point of departure of all inquiry (including philosophy), since all our knowledge definitely proceeds from the empirical world.²³ The

20 Viktor E. FRANKL, *Man's Search for Meaning: An Introduction to Logotherapy*, 4th Ed., Boston: Beacon Press, 1992, p. 115.

21 Rather than conceiving of ethical values as preferences included among others in a standard utility function, or as meta-preferences guiding the preference rankings of common goods, some authors have seen norms as constraints on choices. As in a budget constraint, norms could be seen as externally imposing (from the conscience) limits on available choices. Unlike their fiscal counterparts, however, norms may be violated; therefore, the limits they impose are not rigid. Yet, as argued above, a more integrated picture is obtained by observing consumer behaviour more holistically and from the inside.

22 An excellent account of the timeline of this view is given in HAUSMAN, *The Philosophy of Economics*, pp. 38–42.

23 It must be insisted that all science (including economics) begins with observation and ends with observation, revealing thereby a mixed (deductive/inductive) approach (cf. John Neville KEYNES, *The Scope and Method of Political Economy*, 4th Ed., London: Macmillan, 1917; cited in HAUSMAN, *The Philosophy of Economics*, pp. 85 and 90).

particular field of enquiry must then provide for its logical-demonstrative requirements with methodological procedures appropriate to its nature.²⁴

The most basic issues of knowledge (What is man? What is the meaning of his life? etc.) belong to philosophical enquiry. Disciplines like law and economics implicitly assume these principles and use them in their enquiry. This view is still clearer when one considers that in practical disciplines one reasons by starting from a set of objectives. The specific moral norms are arrived at working from the supreme ends of man. The elaboration of a juridical or economic system is justified working from the ends of law or of economy.

Economics makes assumptions on rationality and on the *ordinality* of utility, because these concepts transcend its scope and field of inquiry. This is the realm of ethics or, perhaps, the philosophy of economics. Indeed, a strong theory of virtue as a consumer's permanent disposition of making right choices and of prudence as the rational principle in all choice must precede all economic analysis. There is need of philosophy of economics, whose task would be to analyse the principles that ground all economic theory.

This analysis contrasts sharply with that of philosopher-economist Friedrich A. Hayek and philosopher Robert Nozick. Sen – and I heartily concur – has rejected the ‘outcome independent’ position (which suggests that socio-economic outcomes are generally irrelevant to ethical evaluation), and has called for the development of ‘consequent-sensitive’ approaches to the characterisation of freedom and rights.²⁵

6. CONCLUSION

This essay has highlighted the central idea that, in the final analysis, market outcomes and government actions should be judged in terms of valuable *human ends*. Now, in practical sciences like economics, the *ends* (not the ends in themselves, but the *desire* of the end) are the major premises, the principles or point of departure upon which all the conclusions depend – or, if you wish, the fundamental behavioural postulates on which economic theory rests.²⁶ An error in the premise leads to wrong conclusions. Stephen Hawking may have had this in mind when he said,

24 Cf. Juan José SANGUINETI, *Logic and Gnoseology*, Rome: Urbaniana University Press, 1988, p. 10.

25 Cf. ‘Economic Theory, Freedom and Human Rights: The Work of Amartya Sen’, *ODI Briefing Papers* (November 2001), at <http://www.odi.org.uk>.

26 ‘The propositions of economic theory, like all scientific theory, are obviously deductions from a series of postulates’ (Lionel ROBBINS, *An Essay on the Nature and Significance of Economic Science*, 2nd Ed., London: Macmillan, 1935; cited in HAUSMAN, *The Philosophy of Economics*, p. 119).

'No matter how powerful a computer you have, if you put lousy data in, you will get lousy predictions out.'²⁷ Now, moral virtue – in its intentional aspect – consolidates the desire for the end, thus grounding the premises of prudential syllogism. The absence of these *true* fundamental postulates would jeopardise the predictive capacity of an economic model. Until recently, most macroeconomic forecasters, assisted by mathematical models, were predicting economic recovery and rising stock indices. But the market has reminded us that reality does not always correspond to the predictions of those who claim the mantle of 'science'.²⁸

There is, therefore, a need to consolidate the premises from which economic analysis takes its departure. This can only be done from a deeper understanding of the human person, a task that transcends economics and can, therefore, only be tackled philosophically. We propose to summarise the behavioural postulates into four fundamental principles, namely:

- *The principle of individual liberty* that translates into creating *space* for individual agency in the economy. Policy makers should allow for slack in the business environment e.g. liberalised regimes, looser monetary and fiscal policies, more flexible labour laws, etc.
- *The principle of optimality* 'operationalised' in the choice of the right mix of pleasurable and arduous goods. (Remember that what is optimal in whichever domain of consumer behaviour facilitates optimality both in the other domains and for the person.) A choice of too much (or too little) of a commodity may lead to hazardous consequences, as in the case of remunerating CEOs (chief executives) through stock derivatives like options.²⁹ This may lead to their overstating the firm's financial position. Similarly, an executive who is averse to taking risks may not do well for his firm, just as the

27 Stephen HAWKING, 'Does God Play Dice?' *Public Lectures*, at <http://hawking.org.uk/text/public/dice.html>, p. 3.

28 Cf. Robert P. MURPHY, 'Econometrics: A Strange Process', Ludwig von Mises Institute, 17 July 2002, at <http://www.mises.org/fullarticle.asp?record=1001&month=46>.

29 A stock option (or a share option in England) is the right to buy some of a company's equity at an agreed price, after an agreed length of time. (Not unexpectedly the stock market inflates the values of these options.) The spread of share options could distort the economy, contributing to a temporary overvaluation of equities, encouraging short-sighted managerial decisions and storing up problems for the companies in the future (cf. *The Economist*, 7 August 1999, p. 11).

one who takes too much risk may lead his firm into serious jeopardy (witness Barings Bank).³⁰

- *The principle of justice*, by means of which rights and entitlements are guaranteed. A person's entitlement set is a way of characterising his or her overall command over things, taking note of all relevant rights and obligations. Whereas rights are generally characterised as relationships that hold between distinct agents (e.g. between one person and another person, or between a person and a state), a person's entitlements are the totality of things he can have by virtue of his rights. Privations tend to arise from people not being entitled in the prevailing legal system of institutional rights, say, to food, water or education.
- *The principle of rationality* (read prudence), which ensures that decisions are optimal not only according to self-interested pursuit of the material well-being but according to the total well-being of the human person (relating to his or her personal physical and mental well-being) and the agency aspect (relating to the goals that a person values, desires and has reason to pursue).

30 The Nick Leeson and Barings Bank case is a classic example. The imprudence of a 28-year-old trader on the Singapore Monetary Exchange (SIMEX) and the greed and stupidity of a 233-year-old bank combined to destroy an investment empire and in the process stunned the world. (Leeson had been appointed manager of a new operation in futures markets on the SIMEX and was soon making millions for Barings by betting on the future direction of the Nikkei Index. In his autobiography, *Rogue Trader*, Leeson said the ethos at Barings was simple: 'We were all driven to make profits, profits, and more profits . . . I was the rising star.' Cf. <http://www.bbc.co.uk/crime/caseclosed/nickleeson.shtml>.)

THE OBJECTIVE OF BUSINESS MANAGEMENT: A BIBLICAL PERSPECTIVE

CHRISTOPHER OWCZAREK

1. INTRODUCTION

Do business management and the Bible have anything in common? Does the Christian revelation contained in the Bible have anything to offer Christian and non-Christian managers regarding their business behaviour? One would expect the Bible to support the business virtues championed by the common human ethic, characterised by honesty, accountability, justice, defence of the poor, etc. To be sure, we do find these business virtues in the Bible without difficulty. The question, however, is whether the Bible can offer something specifically biblical, that is, something that we cannot find anywhere else, on the *purpose* of business management? This paper will try to answer this question.

2. A STORY OF A VERY SUCCESSFUL MANAGER

We find this story in Genesis, the first book of the Bible. Joseph, the youngest son of Jacob, is sold into slavery in Egypt (Gen 37). There, he quickly becomes a successful estate manager for Potiphar, an officer of Pharaoh, the captain of the guard (Gen 39:1–6a). Yet, he does not enjoy his privileged position for long. Due to the intrigues of his master's wife, he ends up in the royal prison (Gen 39:6b–20). Even there, however, his management skills do not pass unnoticed and in a short while Joseph becomes the C.E.O. of the royal prison, even while he is still a prisoner (Gen 39:21–23). What saves him from the prison is his ability to interpret dreams, in other words, his analytical skills – Joseph can analyse the data in order to predict the future with uncommon accuracy (Gen 40). One day he is asked to interpret the Pharaoh's dream about 'the seven fat and seven thin cows' (Gen 41:1–24). We can say that Joseph gets access to privileged information from the government of Egypt regarding the economy of the country. Pharaoh had this information, but could not interpret it. The same information in Joseph's hands, combined with his analytical skills, allows him to foresee the market trends for the next fourteen years and to chart an appropriate course of action, with a view toward maintaining a stable economy (Gen 41:25–36):

The seven good cows are seven years. . . . The seven lean and gaunt cows that came up after them are seven years . . . of famine. . . . There will come seven years of great plenty throughout all the land of Egypt, but after them there will arise seven years of famine, and all the plenty will be forgotten in the land of Egypt; the famine will consume the land, and the plenty will be unknown in the land by reason of that famine which will follow, for it will be very grievous. Now therefore let Pharaoh select a man discreet and wise, and set him over the land of Egypt. Let Pharaoh proceed to appoint overseers over the land, and take the fifth part of the produce of the land of Egypt during the seven plenteous years. And let them gather all the food of these good years that are coming, and lay up grain under the authority of Pharaoh for food in the cities, and let them keep it. That food shall be a reserve for the land against the seven years of famine which are to befall the land of Egypt, so that the land may not perish through the famine (Gen 41:26-36).¹

The expertise he displays earns him elevation to the position of ‘prime minister’ of Egypt, second only to the Pharaoh himself, and this at the age of 30 (Gen 41:37-46)! Thus, endowed with the authority of the government, he puts into action his own rescue plan for Egypt. He has no difficulty imposing and collecting 20% in tax on all the produce of the land (Gen 46:34). In the time of plenty, this system of taxation is not so burdensome:

During the seven plenteous years the earth brought forth abundantly, and he gathered up all the food of the seven years when there was plenty in the land of Egypt, and stored up food in the cities; he stored up in every city the food from the fields around it. And Joseph stored up grain in great abundance, like the sand of the sea, until he ceased to measure it, for it could not be measured (Gen 41:47-49).

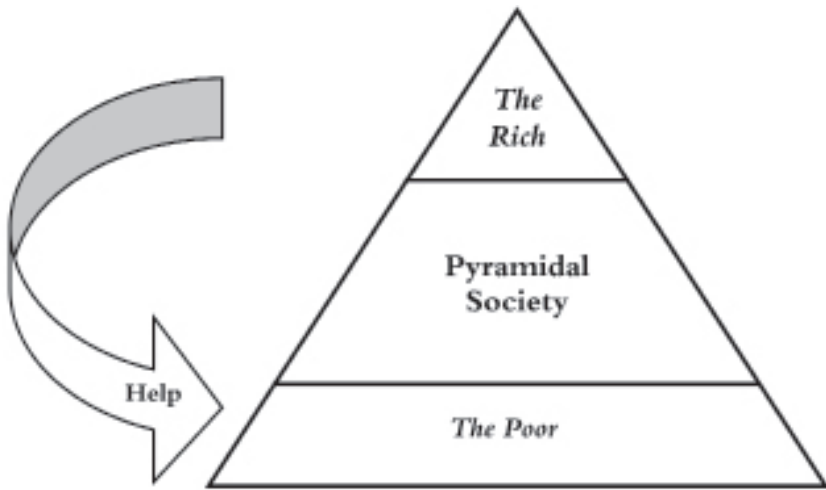
At the end of the seven years of prosperity and buoyant market, Joseph is well prepared to face the seven years of famine and its attendant civil unrest. The people react exactly as expected. Once they have consumed their own reserves, they clamour for help from the government. Joseph opens all the storerooms and sells food to the famished population of Egypt and Canaan (Gen 41:53-57). He does not hesitate, however, to take full advantage of his monopolistic position as the only food supplier. He manages first to deprive the people of their money, and subsequently, of their livestock and of their land. Finally, the people themselves are reduced to the state of slavery at the mercy of the central government:

1 All biblical citations are of the Revised Standard Version.

And Joseph gathered up all the money that was found in the land of Egypt and in the land of Canaan, for the grain which they bought; and Joseph brought the money into Pharaoh's house. And when the money was all spent in the land of Egypt and in the land of Canaan, all the Egyptians came to Joseph, and said, 'Give us food; why should we die before your eyes? For our money is gone.' And Joseph answered, 'Give your cattle, and I will give you food in exchange for your cattle, if your money is gone.' So they brought their cattle to Joseph; and Joseph gave them food in exchange for the horses, the flocks, the herds, and the asses: and he supplied them with food in exchange for all their cattle that year. And when that year was ended, they came to him the following year, and said to him, 'We will not hide from my lord that our money is all spent; and the herds of cattle are my lord's; there is nothing left in the sight of my lord but our bodies and our lands. Why should we die before your eyes, both we and our land? Buy us and our land for food, and we with our land will be slaves to Pharaoh; and give us seed, that we may live, and not die, and that the land may not be desolate.' So Joseph bought all the land of Egypt for Pharaoh; for all the Egyptians sold their fields, because the famine was severe upon them. The land became Pharaoh's; and as for the people, he made slaves of them from one end of Egypt to the other (Gen 47:14-21).

Joseph may have saved the people of Egypt from famine, but in the process, he deprived them of their property and their freedom. He neither shared his market knowledge with the people nor did he train them to withstand the crisis. He used his knowledge and managerial skills to establish a total monopoly of the organisation he represented and thus to maximise its profit. In this way, Joseph contributed to the formation of a 'pyramidal' society, with the rich, that is, the ruling class and its supporters, at the top of the pyramid and the poor at the bottom (see Figure 1). Those at the bottom of this pyramidal structure of the society were made completely dependent on the good will of those who enjoyed their privileged position at the top through easy access to resources (positions, jobs, money, etc.).

The only people who escaped such a predicament were the priests, for, according to the law, they lived on a fixed allowance accorded to them by the government. Only they managed to preserve their land and their freedom (Gen 47:22, 26b). This will become an important factor for the Hebrews, when, through the event of Exodus, they will form a society of their own.

**Figure 1**

The total dependence of the population of Egypt on its government turned against the Hebrews, who had in the meantime settled down in Egypt. At the change of the dynasty, 'there arose a new king over Egypt, who did not know Joseph' (Exod 1:8). The new king, for purely political reasons, imposed on the descendants of Joseph a very harsh form of slavery (Exod 1:8-14):

They set taskmasters over them to afflict them with heavy burdens; and they built for Pharaoh store-cities, Pithom and Raamses. . . . So they made the people of Israel serve with rigor, and made their lives bitter with hard service, in mortar and brick, and in all kinds of work in the field; in all their work they made them serve with rigor (Exod 1:11, 13-14).

Not having property of their own and being completely dependent on the government, the Hebrews were not in a position to offer any resistance. They experienced what the poor of all time have always experienced: social marginalisation and economic exploitation.

Joseph was a very successful manager. He died surrounded by riches and in glory (Gen 50:26), but he created a system that marginalised and exploited people. As long as he and his protectors were alive, his own people had no reason to complain. They were among the beneficiaries of the system. The wickedness of that system, geared only towards the maximisation of owner value, appeared when the roles changed and the beneficiaries became the victims. Then, only God could help the Hebrews, and God did. In the process, however, God changed the system. Let us examine this in some detail.

3. FROM THE 'PYRAMIDAL' TO THE 'CIRCULAR' SOCIETY

The event of Exodus, the deliverance of Israel from Egypt, constitutes the central and, in fact, unique theme of the Old Testament credo:

A wandering Aramean was my father; and he went down to Egypt and sojourned there, few in number; and there he became a nation, great, mighty and populous. And the Egyptians treated us harshly, and afflicted us, and laid upon us hard bondage. Then we cried to the Lord, the God of our fathers, and the Lord heard our voice, and saw our affliction, our toil, and our oppression; and the Lord brought us out of Egypt with a mighty hand and an outstretched arm, with great terror, with signs and wonders; and brought us into this place and gave us this land, a land flowing with milk and honey (Deut 26:5-9).

This is the confession of faith that the Israelite father pronounced when, accompanied by his entire family, he brought the first fruits of the harvest to the sanctuary (Deut 26:1-5). This credo reveals a very important fact – God Yahweh did not try to help the marginalised and exploited Hebrews within the corrupt and oppressive Egyptian system. God took the poor of Egypt completely *out of the system*. The credo stresses the fact that the event was a work of God alone, a great miracle accomplished with 'a mighty hand and an outstretched arm, with great terror, with signs and wonders' (Deut 26:8). This miraculous aspect of Exodus is expressed in the biblical narrative by means of a story of the passage through the divided sea – an event that breaks all the laws of nature (Exod 14:1-15:21). This brings us immediately to another consideration. In the Bible, God divided the waters for the first time when God was creating the world, a new order (cosmos) out of chaos (Gen 1:1-10). The division of the waters in the story of Exodus indicates that God is again creating something new, a new order, but this time not at the level of the material world, but at the level of society. The departure from the exploitative social system would not be genuine, however, unless it led to the construction of a new society that knew no more exploitation and marginalisation; a society where everyone was recognised as an important player and where everyone enjoyed the fruits of common effort.

Once free, the oppressed and exploited people will have the temptation to reproduce the only social system they have known, that is, the 'pyramidal' system of Egypt, unless they undergo a dramatic change of mentality and learn new ways of dealing with one another. That change is initiated through the Covenant at Mt. Sinai, the heart and centre of the Exodus. There, the Hebrews receive the constitution for the new society they are supposed to build. Before they enter the Promised Land, they receive the law that instructs them on how to use that land. That law is

designed to make them into a society different from all other societies; they are to become God's *special possession, a holy nation and a kingdom of priests* (Exod 19:5–6). Just as priests in Egypt could not be deprived of their land, so also every Hebrew family would have a perpetual right to the land it was to receive upon arrival in Canaan:

The land shall not be sold in perpetuity, for the land is mine; for you are strangers and sojourners with me. And in all the country you possess, you shall grant a redemption of the land. If your brother becomes poor, and sells part of his property, then his next of kin shall come and redeem what his brother has sold. If a man has no one to redeem it, and then himself becomes prosperous and finds sufficient means to redeem it, let him reckon the years since he sold it and pay back the overpayment to the man to whom he sold it; and he shall return to his property. But if he has not sufficient means to get it back for himself, then what he sold shall remain in the hand of him who bought it until the year of jubilee; in the jubilee it shall be released, and he shall return to his property (Lev 25:23–28).

In Egypt, the Hebrews experienced the harsh reality of the land-tenure system called prebendal. In that system, land was viewed as a tradable commodity, but ultimately it was the possession of the king who represented the state. The linkage of land and person was not inalienable, but was viewed as an historical accident. There were no safeguards against the rapacious social policy of the strong against the weak.² The Hebrews suffered because of the lack of such safeguards. Having been deprived of their possessions, they could offer only their work under the conditions dictated by their oppressors.

In contrast, on Mt. Sinai, God commands them to follow a land-tenure system that is governed by patrimony. In this system, the ownership of land is inalienable. The family inheritance gives privileges, but also imposes responsibilities. As a result, it bestows a certain dignity on the human person. It seems that what is displayed here is the profound appreciation of the *materiality* of the human process. People are intended to have land and turf, as well as the social power that goes with them. When people lack land and social power, their persons are commensurately diminished.³ Therefore, in Israel, the land is to be retained in perpetuity. Only the produce of the land can be sold:

You shall hallow the fiftieth year, and proclaim liberty throughout the land to all its inhabitants; it shall be a jubilee for you, when each of you shall return to his property and each of you shall return to his family. . . . And

2 Cf. Walter BRUEGGEMANN, *A Social Reading of the Old Testament: Prophetic Approach to Israel's Communal Life*, ed. Patrick D. MILLER (Minneapolis: Fortress Press 1994), 239.

3 *Ibid.*

if you sell to your neighbour or buy from your neighbour, you shall not wrong one another. According to the number of years after the jubilee, you shall buy from your neighbour, and according to the number of years for crops he shall sell to you. If the years are many you shall increase the price, and if the years are few you shall diminish the price, for it is the number of the crops that he is selling to you. You shall not wrong one another, but you shall fear your God; for I am the LORD your God. Therefore you shall do my statutes, and keep my ordinances and perform them; so you will dwell in the land securely (Lev 25:10,14-18).

The law also provides support for those groups which, for very different reasons, are not in a position to live off their own land: widows, orphans, strangers, and Levites. The owners of the land, that is, the majority of Israelites, are viewed as God's administrators or God's managers, for 'land is mine' (Lev 25:23). Since the Israelites have received the land from God, they are to manage it according to God's will and not according to what they would prefer. God's will is that the produce of the land satisfy not only the owner's family, but also those who do not have real estate:

When you reap the harvest of your land, you shall not reap your field to its very border, neither shall you gather the gleanings after your harvest. And you shall not strip your vineyard bare, neither shall you gather the fallen grapes of your vineyard; you shall leave them for the poor and for the stranger: I am the LORD your God (Lev 19:9-10).

Those who do not have land are not reduced to the status of beggars. Their dignity is not diminished. They go and collect what is theirs from the land that is not theirs:

When you reap your harvest in your field, and have forgotten a sheaf in the field, you shall not go back to get it; it shall be for the sojourner, the fatherless, and the widow; that the LORD your God may bless you in all the work of your hands. When you beat your olive trees, you shall not go over the boughs again; it shall be for the sojourner, the fatherless, and the widow. When you gather the grapes of your vineyard, you shall not glean it afterward; it shall be for the sojourner, the fatherless, and the widow. You shall remember that you were a slave in the land of Egypt; therefore I command you to do this (Deut 24:19-22).

God Yahweh acted on behalf of the marginalised people in Egypt, not in order to create a new marginality among them, but in order to eliminate it altogether. God's attentiveness to the marginal is a warrant for such a managerial vision in Israel that is strongly attentive to marginality.

Every year, those who have will leave something, according to their generosity, for those who do not have. It does not mean, however, that all the rest is theirs. Every three years, 10% of their produce will be brought to the community store and distributed from there to those in need:

At the end of every three years you shall bring forth all the tithe of your produce in the same year, and lay it up within your towns; and the Levite, because he has no portion or inheritance with you, and the sojourner, the fatherless, and the widow, who are within your towns, shall come and eat and be filled; that the LORD your God may bless you in all the work of your hands that you do (Deut 14:28-29).

When you have finished paying all the tithe of your produce in the third year, which is the year of tithing, giving it to the Levite, the sojourner, the fatherless, and the widow, that they may eat within your towns and be filled, then you shall say before the LORD your God, 'I have removed the sacred portion out of my house, and moreover I have given it to the Levite, the sojourner, the fatherless, and the widow, according to all thy commandment which thou hast commanded me; I have not transgressed any of thy commandments, neither have I forgotten them; I have not eaten of the tithe while I was mourning, or removed any of it while I was unclean, or offered any of it to the dead; I have obeyed the voice of the LORD my God, I have done according to all that thou hast commanded me. Look down from thy holy habitation, from heaven, and bless thy people Israel and the land which thou hast given us, as thou didst swear to our fathers, a land flowing with milk and honey' (Deut 26:12-15).

The land flows with milk and honey as food for human beings, there where they live in a society without marginalisation and exploitation, where the dignity of all is upheld. The 'haves' are not to use any excuses in order to avoid sharing their income with 'have-nots', but they are to consider that 10% as a sacred portion, as something that does not belong to them. They are to understand that only the removal of that sacred portion will secure the blessing and abundance in the land.

If this system worked, the Hebrew 'have-nots' would be well taken care of. It will never be possible to eliminate the existence of strangers, orphans and widows, but it is possible, according to the Covenant law, to create a world in which one can be a stranger, an orphan, or a widow without being marginalised and exploited (see also Deut 14:29; 16:11-14; 24:19-21).

The question arises: what about those, who have land but fall sick and are unable to work the land, or become victims of some sort of misfortune or natural disaster such as drought or flood? The new socio-economic system designed by God makes provisions for them as well:

If there is among you a poor man, one of your brethren, in any of your towns within your land which the LORD your God gives you, you shall not harden your heart or shut your hand against your poor brother, but you shall open your hand to him, and lend him sufficient for his need, whatever it may be. Take heed lest there be a base thought in your heart, and you say,

‘The seventh year, the year of release is near,’ and your eye be hostile to your poor brother, and you give him nothing, and he cry to the LORD against you, and it be sin in you. You shall give to him freely, and your heart shall not be grudging when you give to him; because for this the LORD your God will bless you in all your work and in all that you undertake. For the poor will never cease out of the land; therefore I command you, You shall open wide your hand to your brother, to the needy and to the poor, in the land (Deut 15:7-11).

The Israelites are told that there always will arise cases of poverty, but the one who has become a poor person is not to be considered a nuisance or a stranger, but a brother, and needs to be treated as such. He or she needs to borrow to survive the hard times and to restart the family economy. Their needs are not to be met with refusal. How the lending is to be done is explained in another law:

You shall not lend upon interest to your brother, interest on money, interest on victuals, interest on anything that is lent for interest. To a foreigner you may lend upon interest, but to your brother you shall not lend upon interest; that the LORD your God may bless you in all that you undertake in the land which you are entering to take possession of it (Deut 23:19-20, cf. Exod 22:25-27).

What happens if the borrower is not able to repay even the capital that was put at his disposal? In this case, the Covenant law resorts to a common practice in the Ancient Near East called ‘slavery for debts’. Those who cannot generate enough profit to pay their debts can sell themselves to their lenders, that is, they can sell all their work to them. However, that kind of ‘slavery’ cannot last forever. The longest it can last is six years, for on the seventh year, the so-called sabbatical year, the release must be granted:

At the end of every seven years you shall grant a release. And this is the manner of the release: every creditor shall release what he has lent to his neighbour; he shall not exact it of his neighbour, his brother, because the LORD’s release has been proclaimed. Of a foreigner you may exact it; but whatever of yours is with your brother your hand shall release. But there will be no poor among you (for the LORD will bless you in the land which the LORD your God gives you for an inheritance to possess), if only you will obey the voice of the LORD your God, being careful to do all this commandment which I command you this day. For the LORD your God will bless you, as he promised you, and you shall lend to many nations, but you shall not borrow; and you shall rule over many nations, but they shall not rule over you (Deut 15:1-6).

Nobody in Israel is to be kept in a perpetual state of dependency. Everyone has to be given another chance to start the family economy afresh. After up to six years of working for one’s lender, however, the

newly released person will have nothing of his/her own and will be forced to borrow again. Will it not be the beginning of a vicious circle of borrowing and slavery? In order to avoid such a situation, the law says:

If your brother, a Hebrew man, or a Hebrew woman, is sold to you, he shall serve you six years, and in the seventh year you shall let him go free from you. And when you let him go free from you, you shall not let him go empty-handed; you shall furnish him liberally out of your flock, out of your threshing floor, and out of your wine press; as the LORD your God has blessed you, you shall give to him. You shall remember that you were a slave in the land of Egypt, and the LORD your God redeemed you; therefore I command you this today (Deut 15:12-15).

The final goal of the law of the Covenant is the elimination of poverty within the new society of God: *'There will be no poor among you'* (Deut 15:4) and, in consequence, the elimination of marginalisation and exploitation of its members. God intends that Israel be egalitarian – a 'circular' *society of brothers and sisters* taking care of one another (see Figure 2).

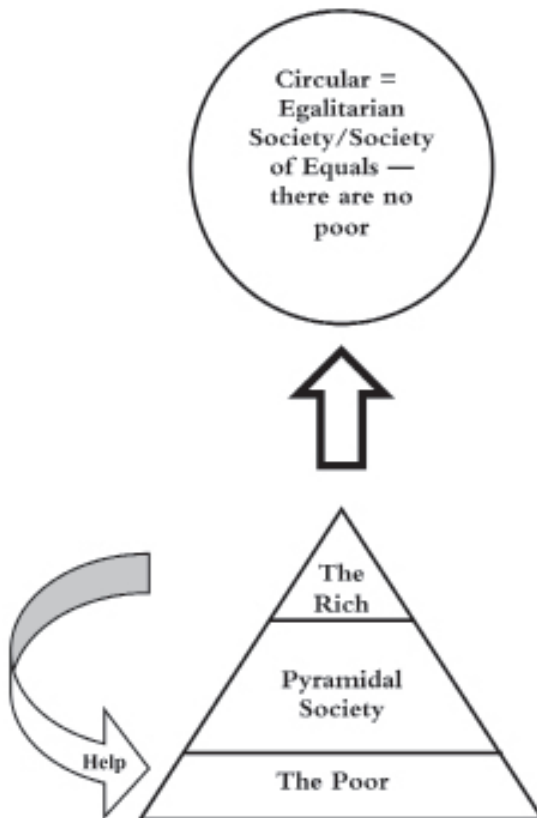


Figure 2

At the same time, the law assures that a society organised and managed according to the 'circular' system', with its attention to the well-being of every member and not just to the maximisation of profit for the 'haves', will be, in the long run, financially stronger than other societies: 'If only you will obey the voice of the LORD your God, being careful to do all this commandment which I command you this day . . . you shall lend to many nations, but you shall not borrow; and you shall rule over many nations, but they shall not rule over you' (Exod 15:5-6). Only in such a society are the members able to feel secure without having to build high walls and spend their resources on the security arrangements: 'Therefore you shall do my statutes, and keep my ordinances and perform them; so you will dwell in the land securely' (Lev 25:18).

4. SOME CONCLUSIONS

1. By concentrating on the maximisation of owner value, one can become a very successful manager in material terms. In this way, one can even deliver essential, though short-lived benefits to a targeted group of people. In the long run, however, such an approach is self-destructive and creates a fatal sphere of action that deprives people of their social power and exposes them to exploitative mechanisms of the 'pyramidal' system.
2. The alienated members of such a system – socially marginalised and economically exploited – have their dignity diminished. Being demotivated, they do not identify with the system. As a consequence, instead of being a creative economic asset, they become an economic ballast and slow down the economy. (In this context, it is enough to think about the Egyptian plagues and their effects on the country's economy, expressed by the Pharaoh's ministers: *'How long shall this man be a snare to us? Let the men go, that they may serve the LORD their God; do you not yet understand that Egypt is ruined?'* – Exod 10:7)
3. Having become a hindrance to the economy, they are perceived as a threat by the managerial class. They are strangers who need to be kept under strict control. Once this course of action is implemented, the alienation of the 'aliens' deepens and this introduces a truly vicious circle, with no way out:

'Behold, the people of Israel are too many and too mighty for us. Come, let us deal shrewdly with them, lest they multiply, and, if war befall us, they join our enemies and fight against us and escape from the land.' Therefore they set taskmasters over them to afflict them with heavy burdens; . . . But the more they were oppressed, the more they multiplied and the more they spread abroad. And the Egyptians were in dread of the people of Israel. So they made the people of Israel serve with rigor, and made their lives bitter (Exod 1:9-14)

4. According to the Bible, God first fashioned the material body of the human being and only then breathed into it the breath/the spirit of life (Gen 2:7; Job 32:8; 34:14). It shows the unity between body and spirit. It also shows that materiality is the basis of spirituality, that spiritual builds upon the material. In order to have spiritually sound human beings, one needs to take care of their 'materiality'. The inalienable ownership of a basic capital, one that both bestows privileges and imposes responsibilities, guarantees human dignity and contributes to the integrity and unity of the society.
5. The 'circular' system of the society proposed in the Covenant law calls for a managerial model that promotes the good of society and all of its members. By sacrificing short-term profit, it contributes to the long-term economic outlook of the society in two ways: first, it boosts the creative energies of all its members and thus taps into all human resources; second, by avoiding alienation of a large section of the society and too sharp an economic disparity among the people, it does not waste economic resources on the security arrangements geared towards the protection of the 'haves' against the 'have-nots'.
6. In other words, the suggestions for the business managers resulting from the analysis of the biblical data can be summarised in the following way:
 - Spread the ownership.
 - Involve all those affected by your system in critical decision-making.
 - Enlist their co-responsibility for the system and its outcome.
 - Plug in all their creative energy.
 - By making more people feel secure and happy, you will feel more secure and happy yourself.
 - You do not need to choose between *maximisation of owner value* and *promotion of the interests of the people affected by your business decisions*, for promotion of the interest of those affected by your business decisions will contribute to owner-value maximisation.

SHOULD ENTREPRENEURS ADVANCE THE PROFIT-MAXIMISATION OBJECTIVE?

HENRY M. BWISA

This book is about the ethics of business management. Of the many issues in business ethics, the question of the aim of business management has been singled out. In other words, what should be the aim of business management?

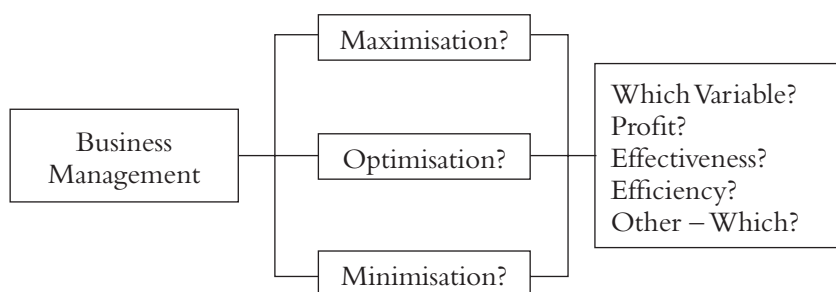


Figure 1

Answers to this question determine answers to a host of other business-ethical questions. One such question is – should the objective of management be the maximisation of a particular financial variable? If so, why? And if not, why not?

There are a number of theories on the question of maximisation of a business financial variable. Agency theory, which dominates contemporary financial management, looks at the good of long-term maximisation of owner value. Opposing theories recognise the importance of owner value, but do not support its maximisation. This chapter looks at the debate between economists and entrepreneurs on the issue of profit maximisation in a firm. Before we delve into the debate, however, it is in order to attempt an understanding of business ethics.

Business ethics may be defined as the behaviour and morals in a business situation. Although some of the earliest writings on ethics that pertain to moral codes and laws can be found within both Judaism (1800 B.C.) and Hinduism (1500 B.C.), most authors credit the Greek philosophers Socrates (469–399 B.C.), Plato (427–347 B.C.), and Aristotle (384–322 B.C.) with providing the earliest writings upon which currently held ethical conceptions are based. According to Hisrich and

Peters, research on business ethics can be broken down into four broad classifications:

1. pedagogically oriented inquiry, including both theory and empirical studies;
2. theory-building without empirical testing;
3. empirical research, measuring the attitudes and ethical beliefs of students and the academic faculty; and
4. empirical research within business environments, measuring the attitudes and ethical views, primarily of managers within large organizations.¹

Each of these areas offers insight into the ethical dimensions of entrepreneurs. Indeed, ethics is not only a general topic for conversation, but also a deep concern of businesspersons. In this regard, one may acknowledge that the life of an entrepreneur is not easy. He/she must take risks with his/her own capital in order to sell and deliver products and services, while expending greater energy than the average businessperson expends in order to innovate. Faced with daily stressful situations and other difficulties, the entrepreneur will do best to establish a balance that differs from the point at which the general business manager takes his or her moral stance.²

It is argued that an employed manager's (intrapreneur's) attitude concerning corporate responsibility is related to the organisational climate perceived to be supportive of laws and professional codes of ethics. Owner managers (entrepreneurs), who may have few role models, usually develop internal ethical codes. Entrepreneurs tend to depend on their own personal value systems much more than intrapreneurs when determining ethically appropriate courses of action.

1. INTRODUCTION

Economics and entrepreneurship may be cousins, but they are not identical twins. Both economics and entrepreneurship are about creation of wealth and, to this extent, they are cousins. Conventional microeconomic theory is a highly refined product of over a century of evolution. Perhaps the most sharply honed variant, as well as probably the most representative version, is the model of the perfectly competitive industry. The model assumes that the basic actors or economic agents are households or firms and that these agents make rational decisions, in the

1 Robert D. HISRICH and Michael P. PETERS, *Entrepreneurship*, Boston: McGraw-Hill, 2002.

2 *Ibid.*

sense that they attempt to maximise the value of some variable subject to various constraints.

Although the term entrepreneur can be traced to classical and neoclassical economists, the discipline of entrepreneurship is a relatively recent phenomenon. There has been a focused study of the entrepreneur, and a distinctive theory of entrepreneurship, which differentiates it from the general theory of economics, is emerging. The model below is an attempt to shed some light on the differences between entrepreneurship and related disciplines.

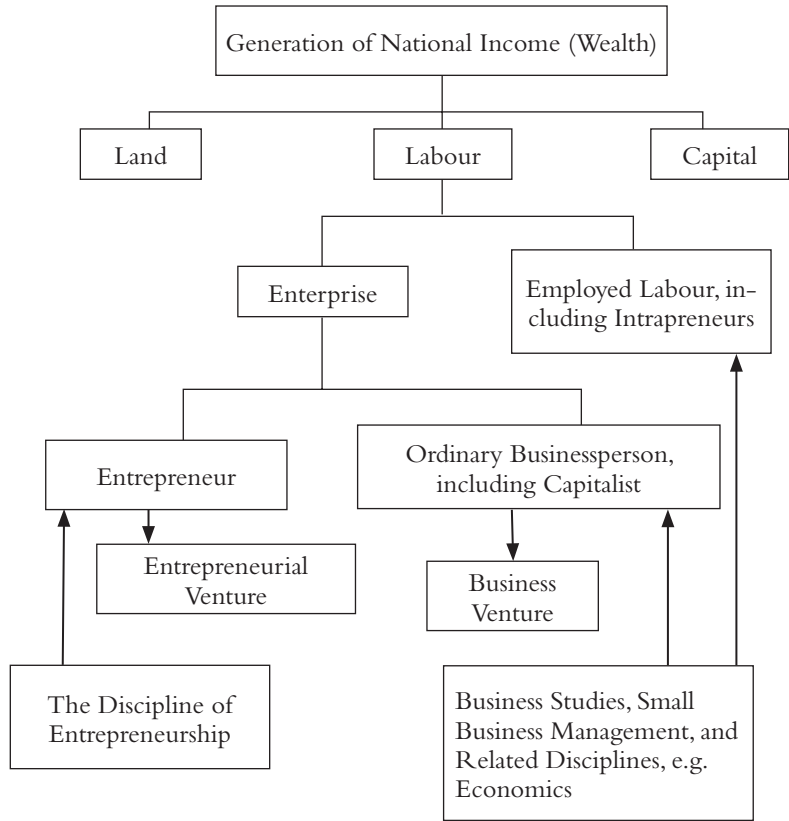


Figure 2: Entrepreneurship and Related Disciplines: A Conceptualisation Model — Source: Conceptualised by Professor Henry M. Bwisa (2003)

The model tells a story. Starting from the top part of the model, the story is that early classical economists and even some neoclassical economists generally believed national income or wealth to be generated by the three traditional factors of production: land, labour, and capital. Later,

a fourth factor was introduced. The fourth factor had to be introduced to distinguish between employing and employed labour. The employing labour organises the other factors of production in the process of creating wealth. Whereas some economists call the fourth factor enterprise, others call it entrepreneurship, while still others call it the entrepreneur. The erroneous impression created is that the three are synonymous. The model adopts the enterprise version. An enterprise is an inanimate unit of production, also called the firm, created by enterprising people. These enterprising people are what we have referred to above as employing labour.

The contemporary entrepreneurship school of thought distinguishes between an entrepreneur as an employer of labour and an ordinary businessperson or even a capitalist who also employs labour. The difference between an entrepreneur and a capitalist lies mainly in the rewards they receive from production. If the entrepreneur earns pure profit as a reward for production, then a capitalist earns interest for allowing his/her resources to participate in production. The distinction between an entrepreneur and an ordinary businessperson is that the former necessarily pursues risky, innovative, growth-oriented, profit-making ventures. The latter does not enormously invest in risk and innovation. He/she enjoys the status quo in business. The difference between entrepreneurs and intrapreneurs is that the former work for themselves (are self-employed) and earn pure profit, while the latter are employees earning salaries.

The guiding philosophies for differentiating entrepreneurship from other disciplines are derived from the above set of differentials. If entrepreneurs are opportunity driven, then intrapreneurs are resource driven; if all entrepreneurs are business people, then not all business people are entrepreneurial; if all entrepreneurial ventures are business ventures, then not all business ventures are entrepreneurial.

The bottom part of the model shows that the principal philosophy of the discipline of entrepreneurship is to produce entrepreneurs, i.e. people capable of starting entrepreneurial ventures. The principal philosophy of the mainstream disciplines of business studies, small business management, economics, and related disciplines is to produce people who can prudently manage resources of existing organisations. Contemporary entrepreneurship scholars have named such people intrapreneurs.

In essence, therefore, the basic philosophy of the discipline of entrepreneurship and its entire process of delivery, including the

instructors to deliver it, has fine differences from traditional business studies, economics, and related disciplines.

It must be acknowledged, however, that entrepreneurship owes its background to economics. Indeed, classical economists, such as Adam Smith, Richard Cantillon, Jean Baptiste Say and others, did make profound contributions towards understanding who an entrepreneur is and, consequently, the whole concept of entrepreneurship. Colloquially, one may say that entrepreneurship and economics are cousins, not identical twins.

2. AN ENTREPRENEUR'S CRITIQUE OF MICROECONOMIC THEORY

One basis upon which entrepreneurs have criticised economic theory is the basic production function. Economic theory states that production involves the transformation of resources into final goods and services. The relationship between inputs and outputs is a technological one, which neoclassical economists summarised in a production function. The function states that the production of good X requires inputs of capital, labour, and land. Its functional notation advanced by many economics textbooks³ is:

$$Q_x = f(K, L, L_d).$$

Where: Q_x is the output of X per time period;

f is the functional relationship; and

K , L and L_d represent the inputs of the services of capital, labour and land, respectively, into the production process.

This production function states that the output of good X is a function of (or depends on) the inputs of the services of capital, labour, and land – that is to say, Q_x depends on all the variables included in the brackets.

The basic actors or economic agents associated with the function are households or firms, and it is assumed that they make rational decisions in the sense that they attempt to maximise the value of some variable, subject to various constraints. In this regard, all relevant information to make decisions is assumed to be available. The normal outcome of the process is a set of inputs, outputs, and prices. One of the most important phenomena explained by the model is the allocation of inputs to firms based on price signals, i.e. dictated by market forces also described as the 'invisible hand'. The invisible hand notion creates the black box metaphor.

3 See for example, Philip HARDWICK, Bahadur KHAN, and John LANGMEAD, *An Introduction to Modern Economics*, Essex: Longman, 1986.



Figure 3

The black box is a decision-making entity, which focuses on maximisation rules. Once the correct decision is made, it is presumed that to whatever degree performance is required, that performance of the type that the decision requires in fact takes place. The basic notion behind the black box is that we do not look into it. We presume it does its decision-making job according to the externally presumed rules, irrespective of the nature of its internal system. Advocating for the firm to maximise profits, or the ‘invisible hand’ or market forces to regulate the economy, seems to borrow from this black box theorem.

Critiques of microeconomic theory have pointed out several grey areas in the theory. One – it is observed that the theory, in using the concept of an economic agent, does not distinguish between single-person firms and multi-person firms. All sizes of firms fall under the rubric of economic agents. The question is – do these different size firms really operate on the basis of the same principle?

Two – the theory is said to leave a gap, in that the precise form of the relationship between Q_x and the variables upon which the production function depends is not specified. This is what creates the black box metaphor. Questions are asked – how effectively are the inputs utilised in producing the goods? This does not explicitly enter as a variable in this model. How do imperfections in the market affect the sort of economic activities that the function represents? This does not also enter the model explicitly. In other words, once market imperfections are introduced, or once the factors that are supposed to be held constant become dynamic, traditional economic theory has little to say.

According to microeconomic theory, if the prices of inputs and outputs are known, then the role of a potential entrepreneur is reduced to merely calculating possible outcomes and making decisions on their basis. The truth is that entrepreneurs continually innovate in an attempt to overcome various imperfections in the market.

The traditional theory is based on perfect competition, with the underlying assumptions for this competition to exist, thus giving the impression that there is no need for entrepreneurship. Indeed, if all markets are working well, if all the information on inputs, production techniques, and outputs are well known, entrepreneurship becomes a routine and unimportant function. Unfortunately, this perfect market situation does not exist in reality.

In summary, the conventional theory does not practically analyse:

- The effectiveness of utilisation of the inputs in producing the goods. The assumption is that firms minimise costs and, hence, inputs are used effectively.
- The speed at which a new technique (innovation) of production can be adopted after it becomes available.
- How imperfections in the market affect economic activities that are carried out.

The question is – given the same inputs and technology, why would some units produce more efficiently than others? Where do they get the extra or X-efficiency?

3. THE X-EFFICIENCY THEORY AND ENTREPRENEURSHIP

The theory of the firm looks unrealistic from the entrepreneurship viewpoint. It is, nevertheless, a cornerstone of the accepted body of microeconomics and marks the essential first step in the process of building up a theory of markets and, from that, a theory of the process of resource allocation in the economy as a whole. The shortcomings of the traditional theory of the firm have seen a steady development of theories, which attempt to improve upon it. One of the most significant developments has been the attempt to open up the ‘black box’ and see what goes on inside it.

One such attempt has been the development of the X-efficiency theory by Harvey Leibenstein.⁴ X-efficiency theory, in a narrow sense, is an extremely simple one. Suppose that certain inputs have been allocated to a firm. These inputs can be used with various degrees of effectiveness within the firm. The more effectively they are used, the greater the output. When an input is not used effectively, the difference between the actual output and the maximum output attributed to that input is a measure of the degree of X-inefficiency.

4

Harvey LEIBENSTEIN, *General X-Efficiency Theory and Economic Development*, London: Oxford University Press, 1978.

In this context, X-efficiency is to be contrasted with allocative efficiency, which is commonly considered in neoclassical economics. The basic notion is that we must distinguish between the allocation of inputs to legal decision-making units, such as firms and households, and the effective use of these inputs within such decision-making units. The theory's basic notion is, therefore, that of distinguishing between the allocation of inputs to legal decision-making units and the effective use of these inputs within such decision-making units.

The X-efficiency theory presupposes that the outputs of a firm are not necessarily a function of the inputs and are not necessarily shaped by some 'invisible hand'; they are instead a function of the efficiency and effectiveness of their use inside the firm. Of course, effective use depends simultaneously on both the decisions that are made about how to use inputs and the actual performance based on these decisions. Thus, within the firm, the concept of X-efficiency captures both the detailed decision-making process, which may determine the intent of how to use inputs, and the actual performance aspect.

Part of the input available to a firm is knowledge of opportunities open to it, or information about how to obtain such knowledge. Clearly, therefore, the notion of X-efficiency can be used to distinguish between entrepreneurial and non-entrepreneurial managers.

The major differences between the traditional theory of the firm and the X-efficiency theory are that, whereas in the former, the basic unit is the firm or household, in the latter, it is the individual, i.e. the entrepreneur.⁵ In the former, the firm/household is assumed to maximise income. In the latter, individuals are not assumed to maximise anything, but are assumed to choose the degree to which they are interested in pursuing purposive behaviour.

4. ENTERPRISES AND PROFIT

Profit is generally viewed as the reward to the fourth factor of production: enterprise. To the economist, profit arises when a firm's total revenue exceeds its total cost:

$$P = TR - TC \text{ (Profit is equal to total revenue less total cost.)}$$

5 Henry M. BWISA, *How to Find and Evaluate a Business Opportunity*, Nairobi: MUKMIK Consultants, 1998.

This equation implies that there can be negative profit, normal profit, or abnormal profit. It means, therefore, that the concept of profit is a complex phenomenon.

Economists further differentiate between normal and abnormal profit. Normal profit is the rate that is just sufficient to ensure that a firm will continue to supply its existing good or service. This normal profit can be said to be the opportunity cost of the entrepreneur's services. Unless the entrepreneur obtains a reward equal to normal profit for undertaking activity in the present line of business, he will leave one market and enter another where he believes the profit level earned will be at least the normal expected return. In the wisdom of Jean Baptiste Say, an entrepreneur is that individual who moves resources from areas of lower into areas of higher productivity and returns.

Abnormal profit is profit that is greater than that just sufficient to ensure that a firm will continue to supply its existing product. In other words, abnormal profit is the return over and above opportunity cost payments and, hence, is the profit earned over normal profit. There are a number of synonyms for abnormal profit, the common ones being super-normal profit, monopoly, and pure profit.

Reading between the lines of the aforesaid, one is tempted to propose that it may not be accurate to believe that enterprises naturally attempt to minimise costs and maximise profits. This does not seem to be a natural phenomenon. In fact, profits may not be a good index of efficiency. A given rate of profit may be consistent with low costs and low prices or a manipulated context that results in higher costs and higher prices.

Anti-capitalistic arguments imply that exploitation is in some sense measured by profits and that profits are evil. Hence, profits have to be kept to very low levels or eliminated. The argument focuses on profit levels as the criterion for the 'rightness' of the operation of the enterprise. The teaching is that somehow, if profits can be kept at the 'right size', then all is well. The problem here is that of focusing too much on profit, yet there are four distinct forces that drive profit, i.e. which must be put under consideration when examining the efficiency of an operation. Looking at only one or two of them can be misleading. The four are price, volume of sales, variable costs, and fixed costs.

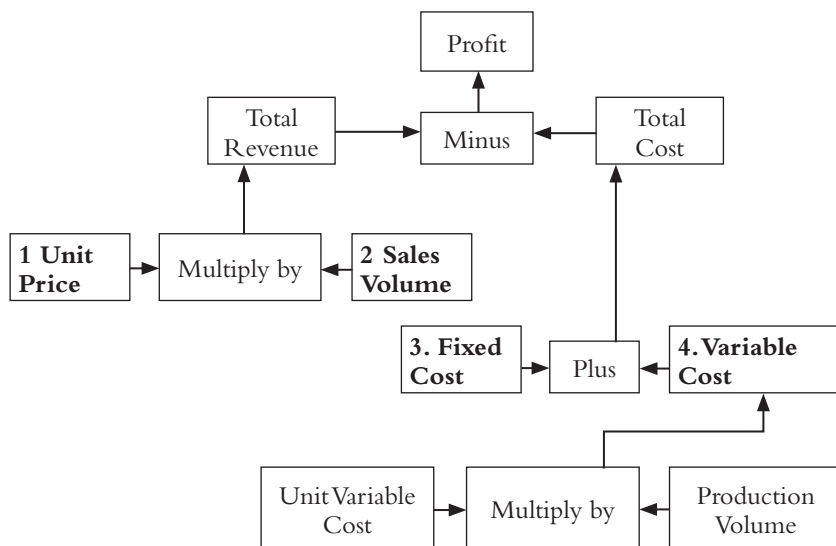


Figure 4: The Four Key Forces that Drive Profit

On the one hand, price and sales volume determine sales revenue. On the other hand, sales volume and variable unit cost determine variable costs, which, when added to fixed costs, determine total cost. Subtracting total cost from sales revenue leads to profit (or loss).

The four forces mentioned above indicate that profit is a complex phenomenon. For example, costs and profits per unit may determine prices, but looking only at profits does not tell us whether the prices are high or low. Profits may be zero, or even negative, and at the same time production may be carried out at such a degree of X-inefficiency that prices are very much higher than necessary.

Another argument looks at profits as the measure of efficiency – the higher the profits, the more efficient the firm. In this case, high profits are usually deemed to be good, while in the anti-capitalist view they are bad. The gauge being used is the same and, once again, the price variable and its relation to cost are not examined. Clearly, where the enterprise operates in a monopolistic or cartel-like environment, it is conceivable for prices to be sufficiently high to allow simultaneously a reasonable level of profits and relatively high costs compared to minimum costs.

5. SHOULD ENTREPRENEURS SEEK TO MAXIMISE PROFIT?

The usual assumption in economics is that the firm attempts to establish that price-output combination which maximises profit. The goal of

profit maximisation is attained when marginal cost (MC) equals marginal revenue (MR). This profit maximisation assumption further assumes that firms will be able to predict their demand curves (hence their marginal revenue schedules) certainly and also identify their marginal cost curves. The notion that firms attempt to maximise profit, however, has come under considerable attack. First, it is argued that, due to uncertainty in the economic environment, entrepreneurs will lack accurate knowledge of future demand and cost conditions. Indeed, the smooth economics demand, supply, cost, and revenue curves are far from existing in the real world. Firms do not have the necessary knowledge, information, or ability to equate MC and MR. Because the demand and cost curves of a firm cannot be objectively known, the profit-maximising objective is unattainable. Pursuance to maximise it, therefore, may make little sense. Secondly, it is argued that firms may have goals other than profit maximisation.

6. WHAT ARE THE POSSIBLE ALTERNATIVE GOALS OF ENTREPRENEURS?

Dissatisfaction with profit maximisation as the sole basis for motivating business behaviour has led to proposing a number of alternative goals. These alternatives are believed to provide a more realistic underpinning for explaining and predicting the behaviour of the firm.

GOAL 1: SATISFICING BEHAVIOUR

Given the uncertainty in the real world and lack of accurate information, some writers have suggested that the firm should not attempt to maximise any objective. Instead, firms should behave in a satisficing manner: to pursue 'satisfactory profits', 'satisfactory growth', etc. This behaviour is considered rational, given the uncertainty of the real world.

GOAL 2: REVENUE MAXIMISATION

An often-mentioned alternative to profit maximisation is that of revenue maximisation. It is contended that once profits reach acceptable levels, firms should be inclined to place higher sales revenue ahead of higher profits as the main objective. Firms should do this, because sales revenue is a key indicator for business performance, tending to reflect consumer acceptance of a firm's product, its competitive position in the market place, and growth.

GOAL 3: MARKET SHARE

Some writers argue that firms should set as a goal the attainment and retention of a constant market share. A large market share can be a valuable asset, because it reflects a firm's ability to compete effectively and to benefit from economies of scale and being a recognised market leader.

GOAL 4: LONG-RUN SURVIVAL

Some writers have suggested that the primary motive of the entrepreneur should be long-run survival. Entrepreneurs should, therefore, take action that maximises the probability that they will survive over the indefinite future.

7. CONCLUSION

Profit plays an important role in economic theory, in terms of acting as a signal to entrepreneurs to transfer resources to where they can best fulfil consumer demands. This process only operates effectively if there are no entry barriers to markets where abnormal profit is being earned.

Profit differs from other factor rewards in a number of ways. It cannot be related to some quantity of entrepreneurial activity, because there are no units of measurement, such as an hour's work, in which it can be measured. Profit is not contractual, but residual: it is uncertain and fluctuates more widely than other incomes. Hence, the entrepreneur never knows in advance what profit will be and does not even know in advance if there will be any profit. Whether entrepreneurs should attempt to maximise profit is still an open question to debate. We hold the view that, all said and done, an entrepreneur should attempt to attain a minimum acceptable level of profit in order to remain in business and pursue any or a combination of the four goals listed above, plus any other besides profit maximisation. This minimum level is itself an ethical question, but the normal profit level should be a measuring rod.

Appendix: Some Beliefs and Problems in Major Ethical Systems

	Nature of Belief	Problem with Belief
Eternal Law	Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanist philosophers; the belief is that everyone should act in accordance with the interpretation.	There are multiple interpretations of the Law, but no method to choose among them beyond human rationality, and human rationality needs an absolute principle or value as the basis of choice.
Utilitarian Theory	Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people.	Immoral acts can be justified if they provide substantial benefits for the majority, even at an unbearable cost or harm to the minority; an additional principle or value is needed to balance the benefit-cost equation.
Universality Theory	Moral standards are applied to the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances.	Immoral acts can be justified by persons who are prone to self-deception or self-importance, and there is no scale to judge between ‘wills’: an additional principle or value is needed to refine the Categorical Imperative concept.
Distributive Justice	Moral standards are based upon the primacy of a single value, which is justice. Everyone should act to ensure a more equitable distribution of benefits, for this promotes individual self-respect, which is essential for social cooperation.	The primacy of the value of justice is dependent upon acceptance of the proposition that an equitable distribution of benefits ensures social cooperation.
Personal Liberty	Moral standards are based upon the primacy of a single value, which is liberty. Everyone should act to ensure greater freedom of choice, for this promotes market exchange, which is essential for social productivity.	The primacy of the value of liberty is dependent upon acceptance of the proposition that a market system of exchange ensures social productivity.

Source: L. T. Hosmer, *The Ethics of Management*, 3rd Ed., Boston: Irwin, 1996, p. 99.

ETHICS IN BUSINESS ECONOMICS: SELF-INTEREST, INEQUALITY OF INCOME, AND SOCIAL JUSTICE

MADUABUCHI DUKOR

1. INTRODUCTION

Players and stakeholders in business economics in a capitalist political economy operate with some ethical or unethical beliefs relative to justice in society. In other words, economics is concerned with both 'is' and 'ought' propositions in the field of business, where business economics and management are exposed to two ethical concepts, namely, social responsibility and self-interest. Hence, I ask, what is the aim of business economics? – Is it social justice or self-interest? I have to adopt two levels of analysis relative to the ethics of business management. These are the levels of ethics and of business economics. Business economics or economics, so to speak, undergirds management and studies the theoretical basis of business management, with a view to answering (how and why) questions in business management and policies of the state in relation to scarce resources, production, means of production, and distribution of commodities. Ethics in relation to economics and business management has to do with the values and codes of conduct of activities and forces in the pursuit of individual and corporate ends in a political economy. It is, therefore, a second-order approach to business management, or a meta-inquiry. Hence, I shall examine the ethical and moral beliefs associated with business economics in a capitalist economy. John Rawls' theory of justice seems sufficiently encompassing to pass as a treatise on either 'the role of government in a capitalist economy' or 'the ethics of economics and management'. In addition to the analysis of ethical, moral, and behavioural assumptions of this paper, a Marxist framework of analysis of capitalism and market economics will be of benefit in understanding what the objective of business economics and management should be. Therefore, the objective of this paper is to show that self-interest and economic inequality are not congruous with social justice and that the rigorous effort by Rawls to construct a theory of justice fails to save the liberal political economy from its inherent bourgeois capitalist injustice.

2. SELF-INTEREST AND ALTRUISM

The ethical concern of business management is obvious. We can say that business ethics is a celebration of modern corporations, because of the social justice accruing therefrom. 'Ethics' here covers both the abstract analysis of the language of moral discourse and morality in business economics. Hence, the legitimate concerns of this inquiry into capitalist political economy range over the entire issue of whether the motive of business economics should be self-interest or social justice as substantive ethical and moral concerns. There are other extended and debatable issues arising from the concepts of self-interest and social justice. One is the issue of our social responsibility to the whole, or the system (or rather society). In the pursuit of self-interest or social responsibility, we are confronted with the dilemma of the practicability of the Golden Rule, which says, 'Do unto others as you would have them do unto you'.¹ What is the utility of this maxim, when others do not observe it in business management? The Golden Rule requires that we work with a basic value judgement, i.e., a judgement that applies in all circumstances in entrepreneurial and business policies and matters, such as accepted rules of behaviour or formal laws in the market and the difference between criminal behaviour and legitimate profit-making. This shows that individuals and institutions, as active players in business and economic activities, are moral agents. They are influenced by their views or assumptions of what is right and proper regarding self-interest and social responsibility. This paper is concerned with the self-interest assumption that is supposed to exist under a capitalist political economy, and the message of selfishness that market economists are supposed to preach: 'Every man for himself and the devil take the hindmost'.²

Secondly, modern economists have tried to argue, on the contrary, that people should try to maximise, not material prosperity, but an abstract quality called utility, i.e., whatever it is that people seek or prefer. Here, what the people seek is an objective antithesis to the principle of capitalism and the competitive market. It presupposes the rational problem-solving approach that gets rid of the spectre of pure self-seeking and the foundation of 'economic imperialism', in order to promote people's utility. The term 'people', as a noun in public choice theory and business economics, connotes social responsibility. It is contrary to self-seeking motives and promotes altruism, social justice, or corporate social responsibility in the society.

1 Matt 7:12.

2 Samuel BRITTAN, *Capitalism with a Human Face*, Cambridge: Massachusetts: Harvard University Press, 1995, p. 34.

Self-interest in the modern democratic and globalised society certainly should not be the driving wheel of business economics and political economy. One cannot but be critical of Bertrand Russell, who sees the inevitability of the selfish drive and its positive impact in political economy. Russell argues that, 'if men were actuated by self-interest, . . . there would be no more wars, no more armies, no more navies, no more atom bombs'.³ He maintains, however, that

there are few occasions upon which large bodies of men, such as politics is concerned with, can rise above selfishness, while, on the other hand, there are a very great many circumstances in which populations will fall below selfishness, if selfishness is interpreted as enlightened self-interest. And among those occasions on which people fall below self-interest are most of the occasions on which they are convinced that they are acting from idealistic motives. Much that passes as idealism is disguised hatred or disguised love of power.⁴

Russell seems to be asserting that self-interest is unavoidable, to the extent of treating it as idealistic or what ought to be. Moralists are no less upset by the 'invisible hand' doctrine of Adam Smith, which says that 'it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest'.⁵ According to him, in serving themselves, they serve their fellows better than had they consciously striven to do so. The question that has been thrown up unto this context is the question of how a community could benefit from the self-interest of its producers or business managers. The issue is in what moral and economic sense would we do others more good if we behaved as if we were following our own self-interest rather than pursuing more altruistic goals. Or, could some market-type process be necessary to yield the information that even a community of altruists would require to decide what to produce and by what methods it should be produced? Even altruism, they say, has some element of enlightened self-interest. To that extent, what is called kinship altruism, i.e., demand of genetic preservation, or reciprocal altruism, i.e. anticipated or actual reciprocity,⁶ has some element of self-interest. This, however, is different from hard-core altruism, that is, the set of actions that are genuinely independent of personal reward or reciprocal. A genuine example of this type of altruism is the Golden Rule. The Golden Rule is the form of

3 Bertrand RUSSELL, Nobel Lecture, 11 December 1950.

4 *Ibid.*

5 Adam SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations*, London: W. STRAHAN and T. CADELL, 1776, Book I, chap. ii, pp. 21-22.

6 BRITTAN, *Capitalism with a Human Face*, p. 41.

altruism worth pursuing in business economics, instead of the pursuit of naked or disguised self-interest.

The ethical and moral issues raised so far border on business economics and the economic policies of the state. This is true, because (a) the moral beliefs of economic agents influence their behaviour in the market place; (b) the study of positive economics – of what is – turns out to be extremely difficult to separate from the study of normative economics – of what should be – for reasons that go deep into the structure of human language and action; (c) the subject of welfare economics rests on complex and disputable moral presuppositions; and, finally, (d) some moral commitments are necessary to evaluate either whole economic systems or more limited policy prospects.⁷

The issue of self-interest and social responsibility could be diagnosed from the study of ideologies or systems such as capitalism, or what some call economic liberalism. In operating any ideological system, government makes a choice of what promotes either self-interest or social responsibility. The idea and purpose of government is *ipso facto* captured by welfarism, capitalism, socialism, or communism and in other extra-legal and economic instruments such as privatisation and commercialisation. I think that the notion of self-interest in business and economic management is usually enhanced by the non-involvement of governments in market policies, while the notion of social responsibility is captured and extended by the notion that ‘government somehow stands above the sordid self-interest of the common marketplace and is subject to higher motives and purpose’. This is labelled by Harvy Johnson the Fabian-Benthamist view of government.⁸

3. MARXIST ANALYSIS

I believe that governments should seek to promote altruism and social responsibility in business, and moral management and maximisation, by overseeing individuals and corporate economic and moral participation in business economics and management. Moral management is defined as ‘management with ethics, a state of ethical excellence, and the practice and implementation of the moral maximization principle’.⁹ Moral maximisation is defined as ‘behaviours, actions, and decisions that result in the greatest enhancement of individual and collective human rights, freedom, equity and development’.¹⁰

7 *Ibid.*, p. 30.

8 See BRITTAN, *Capitalism with a Human Face*, p. 34.

9 Andrew SIKULO, *Applied Management Ethics*, Chicago: Irwin, 1996, p. 96.

10 *Ibid.*

The practice and implementation of moral maximisation principles is a natural way of promoting social justice, and whether any economic political system or instance of business management is underscored by this is another issue. Capitalism or economic liberalism, buffeted by owner value maximisation, maximisation of a financial variable, egoism, hypothetical imperatives, survival of the fittest, etc., promotes self-interest, instead of social responsibility. A Marxist analysis of a capitalist economy will bring forth the hidden skeleton of capitalism and how it promotes egoism and self-interest in business economics, especially in today's reigning IMF-dominated, Western economic imperialism. Nigerian society, for instance, is a capitalist bourgeois society, which, *ipso facto* promotes self-interest and egoism. Marxist analysis lays bare the economic law of motion that ensures the expropriation of surplus value of labour time per a commodity by the capitalists for themselves alone and their selfish interest, to the chagrin of public choice and social justice. Indeed, it is from Marx's concept of value that one understands the exploitation of the majority members of the society by the few for their selfish interests. It means that a capitalist society such as Nigeria is lopsided economically in favour of the few capitalists. This ethical situation is exacerbated by the instruments of privatisation and commercialisation, where surplus values are much more pronounced.

According to Marx: 'The utility of a thing makes it a use-value. Exchange-value (or simply, value) is first of all the ratio, the proportion, in which a certain number of use-values of one kind can be exchanged for a certain number of use-values of another kind'.¹¹ In a capitalist society, these use-values are products of labour, which constantly equate with one another in a definite system of social relations. In exchanging products, people equate the most diverse kinds of labour by means of the production of commodities. The labour power of a given society is represented in the sum total of the values of all commodities. Hence, according to Marx, 'the magnitude of value is determined by the amount of socially necessary labour, or by the labour time that is socially necessary for the production of a given commodity, of a given use-value'.¹² According to Marx, as values, all commodities are only definite masses of congealed labour time. He goes on to analyse the form of value and money and says, 'As the highest product of the development of exchange and commodity production, money masks, conceals, the social character of all individual labour, the social link between individual producers

11 See MARX's economic doctrine in LENIN, *Three Sources and Three Components Parts of Marxism*, Moscow: Progress Publishers, 1959, p. 28.

12 *Ibid.*

united by market'.¹³ As a social link, money acts as the equivalent of commodities and as a means of payment. According to Marx:

The owner of money buys labour power at its value, which, like the value of every other commodity, is determined by the socially necessary labour time requisite for its production (i.e., the cost of maintaining the worker and his family). Having bought enough labour power, the owner of money is entitled to use it, that is, to set it to work for a whole day – twelve hours, let us say. Yet, in the course of six hours ('necessary' labour time) the worker creates product sufficient to cover the cost of his own maintenance; in the course of the next six hours ('surplus' labour time), he creates 'surplus' product, or surplus value, for which the capitalist does not pay.¹⁴

There are two main ways of increasing surplus value: lengthening the working day (absolute surplus value) and reducing the necessary working day (relative surplus value). In all kinds of surplus value, be it ordinary surplus value deduced from the necessary labour time and surplus labour time, or the absolute surplus value and relative surplus value, there are phenomenal and systematic exploitations motivated by self-interest. This form of self-interest, mistreatment, and subjugation constitutes what is called injustice. Capitalist societies are beacons of these forms of injustice. Marxist society, by abolishing surplus labour hours and values, creates wealth that is appropriated by every citizen. In a communist society, ideally, everyone contributes according to his strength and receives according to his need. It is a society that cultivates human dignity and self-respect. It is a truly democratic society. Hence, capitalist society is a sharp contrast to Marxist society. The political economy of the capitalist society is riddled with corruption and all forms of technical mistreatment and exploitation. Rawls' theory of justice as fairness is a theory of economic justice to give capitalism a human face, but which still retains the vital planks of the bourgeois business economics ethics of liberalism and capitalism. Hence, a critical re-examination of Rawls, as a representative of bourgeois political economic ethics, will go a long way towards exposing the unethical business economics of the remnants of primitive capitalism in third world countries like Nigeria and Kenya.

4. RAWLSIAN JUSTICE

Rawls' theory of justice is an attempt to reconstruct the liberal theory of justice and make it acceptable to a world in which the gap between the rich and the poor is increasingly assuming an alarming proportion, because of bizarre economic and business policies. He seeks to work out

13 *Ibid.*, p. 29.

14 *Ibid.*, p. 30.

a theory of justice to reduce the tension in the political economy. He says that in a just society, the liberties of equal citizenship are secured by justice and are not subjected to political bargaining. Following David Hume and Adam Smith, he introduces the notion of an 'ideal observer':

Something is right, a social system say, when an ideally rational and impartial spectator would approve of it from a general point of view should he possess all the relevant knowledge of the circumstances. A rightly ordered society is one meeting the approval of such an ideal observer.¹⁵

Rawls' aim is to determine 'the principles that free and rational persons concerned to further their own interests would accept in an initial position of equality as defining the fundamental terms of their association'.¹⁶ He explains that 'among the essential features of this situation is that no one knows his place in society, his class position or social status, nor does any one know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like'.¹⁷ Under this condition, according to Rawls, 'the principles of justice are chosen behind a veil of ignorance'.¹⁸ This means that those who decide what is just 'do not know how the various alternatives will affect their own particular case and they are obliged to evaluate principles solely on the basis of general considerations'.¹⁹ This is the 'original position', in which the principles of social justice are formulated – the principles 'agreed to in an initial situation that is fair':²⁰ These principles are:

First: each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others. Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be of everyone's advantage, and (b) attached to positions and offices open to all.²¹

The second principle defines what sorts of inequalities are permissible and how the presumption laid down by the first principle may be put aside: 'Now by inequalities it is best to understand not any differences between offices and positions, but differences in the benefits and burdens attached to them either directly or indirectly, such as prestige and wealth,

15 John RAWLS, *A Theory of Justice*, Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1971, p. 184.

16 *Ibid.*, p. 11.

17 *Ibid.*, p. 12.

18 *Ibid.*

19 *Ibid.*, pp. 136–37.

20 *Ibid.*, p. 12.

21 *Ibid.*, p. 60.

or liability to taxation and compulsory services.’²² It is not differences of offices or positions, but differences in the resulting distribution established by a practice, or made possible by it, of the things men strive to attain or to avoid.

These principles are helpful in formulating restrictions as to how practices may define positions and offices and assign these to powers and liberties, rights and duties. According to Rawls, therefore, justice is ‘a complex of three ideas: liberty, equality, and reward for services contributing to the common good’.²³ For him:

Justice and fairness are, indeed, different concepts, but they share a fundamental element in common, which I shall call the concept of reciprocity. They represent this concept as applied to two distinct cases: very roughly, justice to a practice in which there is no option whether to engage in it or not, and one must play; fairness to a practice in which there is such an option, and one may decline the invitation.²⁴

In his theory of justice, Rawls argues for economic adequacy for the worst-off person. Economic adequacy, a feature of the special conception of justice, is attained when the search for food, shelter, and work has become routine, rather than urgent. This is to be accomplished according to what he calls the ‘difference principle’: ‘Social and economic inequalities are to be arranged so that they are . . . to the greatest benefit of the least advantaged.’²⁵

The following criticisms of Rawls’ theory of justice are to show that, in spite of his ingenuity in giving a human face to capitalism, his theory has failed to rescue capitalism and nascent liberal democracy from the abyss of contradictions and social injustice.

Rawls says that liberty enjoys priority over economic benefits and that justice requires equal liberty, but allows unequal economic benefits. For utilitarians, however, there are many more utilities (social goods) to be balanced against one another in a quantitative calculus designed to maximise overall human satisfaction. According to Rawls, utilitarians obfuscate the central moral distinction between two irreducibly different kinds of primary social goods: those whose distribution implicates human dignity and self-respect as against those whose distribution only affects persons’ capacity to satisfy their desires. His conception of self-respect is

22 John RAWLS, ‘Ethics and Social Justice’, in *Great Traditions in Ethics*, ed. Ethel M. ALBERT, Theodore C. DENISE, and Sheldon PETERFREUND, 5th Ed., Belmont, California: Wadsworth, 1984, p. 370.

23 *Ibid.*, p. 368.

24 *Ibid.*, p. 367.

25 RAWLS, *A Theory of Justice*, p. 83.

premised on, first, basic civil liberties and political rights and, secondly, economic goods, like income, wealth, institutional authority, economic power, and social position. Equality of self-respect is perfectly compatible with unequal economic advantage; as a realm of instrumental rationality, economic life requires inequality to maximise the material prospects of all. Rawls' 'conception of self-respect identifies the social basis of self-respect with the position of equal citizenship within constitutional democracy, and detaches it from the position of individuals within socio-economic institutions'.²⁶ What Rawls is implying in his theory is that the individual as citizen and political agent is no utilitarian, but actively engages in a free life with dignity and equality. As a socio-economic being, however, he is a utilitarian concerned with the maximisation of his material benefits within the constraints of fairness. Rawls 'identifies the classical philosophical distinction between the higher realm of human freedom or dignity and the lower, of mere desire or satisfaction with the distinction between the state and the economic life in the society'.²⁷ According to Gerald Doppelt, this way of separating the state from the economy, 'stemming from his conception of self-respect as bourgeois-democratic citizenship, incorporates structurally necessary but morally pernicious feature of capitalism'.²⁸ It seems that Rawls' theory does not recognise any problems of social justice arising from the unequal positions characteristic of a capitalist economy, other than whether they admit of equality of opportunity and maximise the income of the worst-off. There is good reason to believe that, under capitalism, both inequalities of power positions surrounding the labour process and various sorts of inequalities connected with the way income and wealth are distributed generate serious injuries to self-respect. Rawls' second principle is, to leftists, reformist. It tolerates inequalities of power and income that better the condition of the worst-off. The injuries to self-respect in the labour process stem partly from the self-stultification implicit in its most powerless positions. There is a central role that positions of individuals within productive life play in shaping and distributing social access to recognition and self-respect. Rawlsian reform will continue to generate serious injuries to human dignity resulting from its characteristic division of economic power.

Critics have posed the question whether 'the priority of liberty in Rawls' system can be defended if its value is conceived in instrumental

26 Gerald DOPPELT, 'Rawls' System of Justice: A Critique from the Left', *Noûs* 20 (1981), p. 263.

27 *Ibid.*, p. 270.

28 *Ibid.*, p. 280.

terms'.²⁹ This is because, in modern society, the system of ends some people embrace makes income and wealth far more instrumentally valuable to them than equal liberties. These critics argue that the derivation of the bourgeois democratic liberties excludes a kind of self-determination that has become increasingly important in the social dynamics of self-development and respect in modern society. This kind of self-determination calls for a system of democratic socialist liberties surrounding the labour process that goes well beyond the Rawlsian liberties of the first principle and which is incompatible with the kind of unequal economic rights and powers permitted by the second principle. Moreover, his social conception of bourgeois-democratic liberties as the true content of self-determination and proper social basis of self-respect is ideological, because it is uncritically derived from the structure and official self-understanding of capitalist democracy.

There are some areas of superiority of the Marxist tradition to Rawlsian bourgeois-democratic liberties. In the 'Marxian paradigm there is a link between human freedom and the division of labour within economic life'; here 'the freedom and dignity of the individual requires in the first instance that they exercise control over their labouring activity'.³⁰ Furthermore, the labour process involves human interests, activities, and aspects of life sufficiently important to ground claims of basic liberties and rights for all. Free and equal rational beings will be concerned with the domain of labour or area of life and activity in which their most essential human capacities as free and equal rational beings will either be nurtured or starved. The dignity of self-determination will require the practise of freedom, not simply in personal and national political life, but also within the institutions of labour.³¹ Given this socialist paradigm, it is worthy of note that Rawls' conception of the person fails to appreciate that individuals in modern industrial society ought to identify the social basis of self-respect with their participation in the labour process.

Other criticisms of Rawls' work address the philosophical postulates or hypotheses of the theory. Although most philosophers and intellectuals appreciate the egalitarian tendency of Rawls' theory of justice, many do not find either the original position or what follows from it compelling. Rawls' original position of selective ignorance appears to some to be too far removed from the actual human condition to have meaning. To others, the wealth and liberty that Rawls specifies as primary preferences are seen as the arbitrary preferences of the twentieth-century liberal. It is

29 *Ibid.*, p. 288.

30 *Ibid.*, p. 294.

31 *Ibid.*, p. 294.

believed by critics that behind the veil of ignorance, the individual might be less conservative than Rawls imagines. The individual might think that being in the upper class of greater advantage would be so much better than being in the least advantaged class that he might suggest maximising the goods of the upper class, at the expense of the least advantaged, in the hope of landing in the upper class. In addition, the hypothetical man might decide in the original position to be more idealistic than he would be in Rawls' model; he might choose the perfectionist goods of humanity in the long run rather than the fair share of primary goods that would accrue to his still unknown individual personality.

Some difficulties inherent in Rawls' work appear to stem in part from more general traditions of ethical analysis. According to Raymond D. Gastil, the errors in Rawls' work are the

assumption that the most acceptable ethics are derived from a single, compelling origin or insight, that ethical behaviour must be universal, that ethics are necessarily consequential in a quasi-quantitative sense, that the primary good for interest are closely bound to the desire of individuals and that both the model of the ideal society and rules for individual behaviour can be derived from the same compelling rational ethics.³²

Hence, Rawls' theory of justice, Marcus Singer's generalisation principle, some utilitarian principles, and Immanuel Kant's categorical imperative 'are all based on the idea that there must be one critical discovery or rational position from which everything else is deducible'.³³ It is believed that once the principle and its derived rules are specified, there can be little theoretical conflict. Yet, there can be conflict in application, invited by the very nature of the abstractness of the basic principle or position.

According to Gastil, Rawls adheres to the tradition that moral and non-moral value judgments are distinct. Rawls develops a moral theory and then goes on to establish a theory of the good society. Gastil points out that the problem of restricting attention to what ethicists may call moral judgement not only is unsatisfactory for evaluating the good society, but also is unsatisfactory for evaluating interpersonal ethical behaviour. For example, 'if one placed a high value on art, he might judge the good society to be one that produced great works of art regardless of its oppression of people'.³⁴ Therefore, in Rawls' work, it would be possible for the individual behind the veil of ignorance to ask some less individualistic question about what societies and personalities would be

32 *Ibid.*, p. 295.

33 Raymond D. GASTIL, 'Beyond a Theory of Justice', *Ethics* 85 (1974), p. 184.

34 *Ibid.*, p. 184.

like under different ethical and social systems. Again, some ethicists have tried to avoid the limitations of concentration on interpersonal ethics in deriving a good society by adopting perfectionist principles that bring in the values of science, art, and culture for the judgement of behaviour and institutions. Rawls rejects perfectionism, but appreciates the standards of excellence in art and science.

Another criticism of Rawls' work asks whether there can be a neutral theory of justice. According to James S. Fishkin, Rawls' theory attempts to accomplish three things: (1) to offer a structural principle of justice, (2) to maintain a uniqueness, and (3) to maintain a neutrality, which means a lack of bias towards any particular theories of the good. Fishkin observed that there are various ways in which the third objective will undermine either the first or the second:

By a structural principle, I mean an ethical criterion that compares states of affairs in terms of payoff to positions. By payoff, I mean some characterization of what is valuable (e.g. primary good, utility and wealth) to individuals. By positions, I mean individuals ranked in terms of their payoff. A structural principle can prescribe a choice between any two states of affairs and it must include both an account of which structure of payoff to positions is to be preferred and an account of what elements of value to individuals are to count as payoff.³⁵

For Rawls, the structure for these payoffs is the maximum notice of the general conception and the lexical ranking of separate structural requirements (equal liberty, equal offer, and the maximum distribution of income and wealth) for the special conception. Bruce Ackerman defines neutrality as follows: 'No reason is a good reason if it requires the power holder to assert: (a) that his conception of the good is better than that asserted by any of his fellow citizens or (b) that regardless of his conception of the good, he is intrinsically superior to one or more of his fellow citizens.'³⁶ The concept of neutrality is employed against Rawls. It is believed that once the empty formalism of strict neutrality is relaxed, so that one 'yardstick' or another can be inserted into a structural theory as the appropriate account of payoffs, the uniqueness claim of the theory is determined. This is because another yardstick could equally lay claim to the title of the appropriate metric for equal treatment, the appropriate substantive content to equality. According to Thomas Nagel:

A theory of the good is presupposed, but it is extensibly neutral between divergent particular conceptions. It is a fundamental feature of Rawls' conception of the fairness of the original position that it should not permit

35 James S. FISHKIN, 'Can There Be a Neutral Theory of Justice?' *Ethics* 93 (1983), pp. 348-49.

36 *Ibid.*, p. 358.

the choice of principles of justice to depend on a particular conception of the good over which the parties may differ.³⁷

According to Rawls, only a 'thin theory of the good' should guide the parties in the original position. Such a theory identifies a person's interest with the success of a life plan chosen with full deliberative rationality, so long as it is consistent with 'effective means', 'greater likelihood', and various other principles of purely instrumental rationality.

Fishkin observes that if Rawls took this definition of the 'thin' theory of the good seriously, it would not support the particular index of primary goods that he requires for his proposed principle of justice. It would leave the choice of such an index indeterminate. The degree of neutrality among theories of the good would rule out any particular substantive content (or theory of payoffs) to structural principles of justice. In attempting to deal with these problems, Rawls assumes a particular conception of the person in the original position. The priority of liberty rests upon a 'model conception of a moral person' presupposed in the original position. But, if individuals in the original position were to assume other controversial conceptions of a moral person, there would be equivalent grounds for different priority rankings. For example, there may be an index of primary goods that places equal opportunity first and liberty second. Rawls' strategy of assuming a particular and controversial conception of a 'moral person' in the original position undermines the uniqueness claim by opening the door to alternative and equally controversial priority rankings for primary goods: 'The aspiration for uniqueness is undermined, in other words, by this apparent loosening of the earlier conception of strict neutrality that was claimed for the thin theory of good.'³⁸ It would seem from this discussion that a strictly neutral theory of justice would lack the substantive content necessary for a developed structural principle. On the other hand, a less than strict concept of neutrality would undermine uniqueness by opening the door to a variety of metrics.

Another critical issue in Rawls' theory to be considered here is the question of eternity. Since the conception of justice is jointly defined by the two principles, if the difference principle lacks invariance, the conception as a whole fails to capture an eternal perspective. Andreas Eshete, in 'Contractarianism and the Scope of Justice', attempts to show that the contractarian claim to eternity is illusory. Invariance is claimed by Rawls in his theory, not as a necessary truth, but in the light of certain facts. Therefore, the eternity claim is anchored in the set of constraints

37 *Ibid.*, p. 355.

38 *Ibid.*, p. 358.

on the facts to be drawn upon in the selection of principles agreed upon in the original situation. Principles chosen behind this veil of ignorance cannot favour anyone. For the purpose of securing invariance and eternity, these facts are to be seen as general, in the sense that they are not facts of this or that conception of justice, but of the concept of justice *simpliciter*. For the contractarian programme to succeed, the principles adopted on the basis of primitive facts of justice must be acceptable to men in any specific situation within the range of general facts. Hence, contractarian theories are undermined when it is shown that they favour a particular model of society, a partisan conception of good, or a special interpretation of human psychology.³⁹ Eshete argues that the difference principle does not apply in all situations of moderate scarcity. The particular situation he has in mind is the situation of relative abundance distinct from the abundance that is the end of history. It would be recalled that Rawls maintains that 'as the conditions of civilization improve, the marginal significance for our good of further economic and social advantages diminishes relative to the interests of liberty'.⁴⁰ The acceptability of the difference principle in this perspective is open to doubt, because the adequacy of material benefits at relative abundance is reduced when it is noted that individuals at this stage in history are likely to be concerned with the highest human ends. Therefore, there might be no compelling reasons for adopting a maximising principle when in a state of relative abundance.

Eshete argues that Rawls might readily admit that maximisation is irrational when material goods are not among the optimal means to human ends and yet deny that avoidance of this irrational course of social action requires abandonment of a maximising principle of distribution. According to Rawls, the problems will dissolve at the practical level and at relative abundance. There will be a shift from the institutions of production to engagement in the institutions of liberty. Apart from fairness, maximisation, and efficiency, there are no principles and corresponding excellences peculiar to the institution of liberty. The other social values would suffer unjustifiable neglect, owing to the continued enshrinement of the maximisation principle.

Again, the concept of meaningful work can conflict with the maximisation principle. The decision to give workers the opportunity to enter various lines of work would mean that men are not always engaged in work in which their marginal productivity is at its greatest. If workers take social and political functions in order to make their choice over

39 Andreas ESHETE, 'Contractarianism and the Scope of Justice', *Ethics*, 85 (1974), p. 47.

40 RAWLS, *A Theory of Justice*, p. 542.

lines of work, then maximisation of their productivity is sacrificed to that extent. But given Rawls' insistence on the invariance of the difference principle, the desire to see that the conditions of meaningful productive work are realised in his ideal, just society can be no more than a pious wish. Hence, Eshete argues that a commitment to the value of meaningful productive work would mean a choice between the difference principle and the principle of equal division, where the latter would be rationally favoured for persons in relative abundance. The principle of equal division is justified, if equal division fits the general structure of society, human psychology and values. In a period of relative abundance under the principle of equal division, the problem of legitimate envy does not arise in society, because the inequalities that occasion it are absent. Under the difference principle, the maximisation of material advantages contributes either to the attainment of the values of free association or to the realisation of political freedom. Under relative abundance for equal division, however, there is room for a community of value in the basic structure itself, and the condition of meaningful work where men are treated as ends in important social practices will be satisfied: 'Those who for one reason or other, are not in a position to attain the excellences proper to political life or free association can now find self-respect, self-realisation and comradeship in the pursuit of the good of meaningful productive work.'⁴¹ Therefore, equal division is the appropriate principle of fair distribution at relative abundance.

Eshete concludes that we cannot position an eternal standpoint encompassing all temporal perspectives on justice, and their order of ranking weighs the claims of justice against efficiency and general welfare. The difficulty is that the values considered are too few and the guiding conception of a social ideal is insufficiently rich for a conception of the just society. According to Eshete, 'to say that the scope of justice varies with differences in temporal perspective or differences in the comparative weight of social values of different temporal stages is not to espouse a kind of historical relativism with respect to the principle of justice.'⁴² It seems that the difference principle is valid, as it stands for a wide range of temporal perspectives and it is only at relative abundance that the difference principle is supplanted by equal division. Eshete argues further that if the significant trends of history can be known at the original position, so that all the historical considerations relevant to the choice and ranking of principles would be available to all at the initial agreement, then the claim to eternity would hold. But, the difficulty

41 ESHETE, 'Contractarianism and the Scope of Justice'.

42 *Ibid.*, p. 48.

with this suggestion is that there are no important *a priori* historical truths: 'We can discern the meaningful trends of history only after the events have happened. If these general remarks about history are true, there is no original position in the required sense of a reflective perspective anyone can enter at anytime.'⁴³ Without the original position, contractarianism is left with no distinctive contribution to make to social philosophy.

Another incisive criticism of Rawls' system is that of David Norton. According to him, if justice is to rest upon principles initially chosen by individuals, the situation of the choice cannot be the actual situation in which any individual finds himself, but must be a rectification. The test of achieving this rectification is a 'veil of ignorance', behind which no one knows his place, intelligence, social status, etc. in society. The difficulty here is that Rawls relies on every person's intuitive support, which cannot be predictable.

Again, Norton contends that Rawls' qualitatively undifferentiated individuals in the initial situation are pseudo-individuals. He says that justice 'is to be found in each individual's conviction of his own intrinsic, unique, irreplaceable worth, a potential worth which requires circumstances that support it, if it is to be manifested in the world and not wasted and which has a just claim to the requisites for its manifestations'.⁴⁴ In other words, it is intra-individual.

Two claims can legitimately and justly be made in the light of the above: claims to those goods which the individual in question can utilise better than towards the realisation of value, and in the absence of manifest worth, claims to the minimal goods required by potential worth for the opportunity of manifestation, for example, food, shelter, decent treatment by others, etc. In both cases, the claims derive from qualitative individuality, potential or actual. In no sense does such an individual possess a just claim to all distributable goods, nor does he desire all distributable goods: 'Qualitative individuality provides the ground for a system of justice which is self-supporting, hence stable, for it alone effects voluntary relinquishing of distributable goods by individuals.'⁴⁵ Justice is, therefore, the expression of individuality in the social context.

According to Norton, primary good is not itself independent of persons and rightfully desired by all, but is a relationship between a distributable thing and a person, such that the potential value of

43 *Ibid.*, p. 49.

44 David L. NORTON, 'Rawls's Theory of Justice: A Perfectionist Rejoinder', *Ethics* 85 (1974), p. 51.

45 *Ibid.*, p. 52.

the thing is manifested in accordance with the unique worth of the individual. According to him, it is in intra-individual proportion that the original meaning of justice is to be found, and not in an inter-individual comparison: 'From the standpoint of qualitative individuality, deserved advantage is possible in virtue of the principle of commensurability. Each person is entitled to those distributable goods whose potential value he can maximally manifest in the course of manifesting his own unique worth.'⁴⁶ It is believed that this principle will justify gross inequalities, but, according to Norton, the utilities of individuals are circumscribed by the principle of individuality, which is at the same time the principle of the fundamental human interdependence termed by Plato the 'congeniality of excellences'. Hence, an ethics of business economics based upon qualitative individuality expresses the rational desires of individual persons. It rests upon two presuppositions: (a) the assumption of the unique, irreplaceable potential worth of every human being and equivalent object value of realised potentials, and (b) the assumption of the accessibility of self-knowledge.

5. CONCLUSION

In concluding this essay, it is appropriate to recapitulate the main points. It is obvious that one of the single most important highlights of the essay is that the choice of an ethics of business economics is in favour of the framework of a Marxist conception or paradigm of social justice, as against the liberalist paradigm of self-seeking pursuit modified in Rawls' system of justice and conception of the social reality of self-respect. From the experiences of capitalist societies such as Nigeria, Kenya, etc., inequality of income cannot guarantee social justice embodied in self-respect, human dignity, and equal rights. Capitalism, by its nature, promotes inequality of wealth, which in turn promotes injustice. Privatisation and commercialisation, the epitome and highest stage of capitalism, is morally pernicious, because it extremely and dastardly separates the state from the economy. Under capitalism, inequalities of power positions surrounding the labour process and inequalities in the way income and wealth are distributed both generate serious injuries to self-respect and social justice. Neither does the surplus value arising from surplus labour time create self-respect, equality, or human dignity. Indeed, unemployment, alcoholism, crime, drug addiction, etc. have been traced to the injustice of the labour process in business economics and management. Privatisation and commercialisation in Nigeria have worsened each of these cases. Rawls' theory of justice fails to appreciate

46 *Ibid.*, p. 55.

that equal liberties and self-determination should enhance and promote equal justice, self-respect, and human dignity. Rawls' theory of justice, Singer's generalisation principle, and Kant's categorical imperative are subject to conflicts in application invited by the very nature of the abstractness of their respective basic principle or position, from which everything else is supposed to be deducible.

As we have observed above, Rawls' theory of justice, with its implications for a political economy of the liberal-capitalist nature, starts to give capitalism a human face by bridging the yawning gap between the rich and poor and enthroning a just society in place of an unjust society created by liberalism. It is a theory of justice as well as an ethic of business management and economics. Nevertheless, the shortcomings of the theory are tantamount to its failure to influence the ethics of business economics and management. The technical, conceptual, epistemological, and analytical difficulties of Rawls' theory betray not only the ethics of capitalist business economics and management, but also its inability to implicate a socialist and popular ethic of business management. Rawls' conception of the person fails to appreciate that individuals in modern industrial society ought to identify the social basis of self-respect with their participations in the labour process. We have seen that Rawls' theory of justice may not defend capitalist management ethics, because a strictly neutral theory, which it claims to be, lacks the substantive contents necessary for a developed structural principle. On the other hand, a less than strict concept of neutrality would undermine uniqueness by opening the door to a variety of metrics. It has been observed that the concept of meaningful work conflicts with the maximisation principle, where the principle of equal division is rationally favoured for persons at relative abundance against the difference principle. It is also argued that since Rawls' difference principle lacks invariance, it fails to capture an eternal perspective, which then makes it unsuitable for substantive business ethics. Again, his concept of a 'veil of ignorance', behind which no one knows his place in society, intelligence, social status, etc., relies on every person's intuitive support, but cannot be predictable in matters of the ethics of business management. Hence, Rawls' qualitatively undifferentiated individuals in the initial situation are pseudo-individuals. Therefore, the ethics of business economics or management should be based upon qualitative individuality expressing the rational desires of individual persons and a social basis of self-respect with active participation in the labour process. Under this condition, we have neither the ethic of self-interest nor naked inequality, but social justice in society.

GOVERNING THE BUSINESS ENTERPRISE: THE WEALTH-CREATING ORGAN OF, IN, AND FOR SOCIETY

KARUGOR GATAMAH

1. INTRODUCTION

My first encounter with the world of business dates back to some two score and two years (42) ago when I proudly joined the ranks of the employed. I was employed as a ‘salesboy’ by a fruit vendor – a very hard working and, in my eyes at the time, cruel old man (God rest his soul) – who taught me business lessons that no business school will ever teach. Allow me to share some of those lessons with you:

Lesson 1 – Business is never done on treetops or with animals; it is done on and with people.

Lesson 2 – You are in business only for as long as customers perceive that you are adding value; hence business is about adding value.

Lesson 3 – To survive in business you must learn that two plus two must equal five or more [$2 + 2 \geq 5$], and not four, as they teach you in the classroom.

Please bear these lessons in mind; I will revert to them later.

In late August 2002, about three months before the general elections in Kenya, I met this old man, who in my mind epitomises the very image of a ‘medicine man’. After exchanging the usual salutations to make polite conversation, I casually asked him how business was doing. He responded as follows:

Young man, business potential is good. However, one must understand what it is that these politicians want and work hard to provide for their needs. I must be seen to add value and to respond to their particular circumstances, their peculiar needs and specific requirements. If that does happen, I will make millions.

Last night, after making sure that my wife was nowhere in sight – appreciate that I have not eaten *githeri* (cooked maize and beans) for over ten years, after telling her that my teeth cannot chew maize – I stopped the car next to a maize-roaster and asked for a piece of soft, well-roasted maize suitable for a toothless old man. The fellow looked at me and said:

Mzee, I swear on my mother's grave that I only roast soft maize freshly cut from the *shamba*. For special customers of your age, I make special provision by only roasting very soft maize, in addition to allowing you to select one from the sack for special roasting, if, on tasting all or any now on the fire, you do not find one that is appropriate. I make a living by providing what my customers need or require.

2. THE PURPOSE OF THE BUSINESS ENTERPRISE

These two men are ordinary people who own very simple business enterprises and probably have not read or heard of Part 1, Chapter 5 and 7 of management guru Peter F. Drucker's *The Practice of Management*, on the topics 'What Is a Business?' and 'The Objectives of a Business'. Nevertheless, they highlight the point that the purpose of a business is to create a customer and to convince the customer that the business creates value for him.¹

Drucker makes the point that the only justification for, and indeed the only reason for, the existence of the business enterprise is the supply of economic goods and services efficiently and effectively, at prices that the consumers can afford, and the economic results it produces. In effect, he suggests or implies that the business enterprise can only justify its existence and legitimacy in society by the extent to which it adds value to, improves the quality of life of, and enhances the wealth creating and wealth producing capacity of, the society.

Making the case for the responsible corporate enterprise, Subir Chowdhury suggests in *Management 21C* that companies must learn from the clear lesson of history that 'institutions decline when they lose their social legitimacy' and observes that 'the business world is full of examples of companies that earn healthy profits year by year by focusing continuously on the task of creating value for society'.²

This discussion assumes that we are all agreed on what business is and is not. In providing an historical perspective, Arie de Geus observes that 'economic handbooks give a short and interesting definition of what business is about. This definition goes as follows: "Business is about the production of goods and services by combining three production factors – land and natural resources, capital and labour."' ³ Unfortunately, in today's world, and as pointed out by Charles Handy in *The Empty*

1 Peter F. DRUCKER, *The Practice of Management*, New York: Harper & Row, 1954, p. 37.

2 Subir CHOWDHURY, *Management 21C*, London: Pearson Education, 2000, p. 138.

3 Arie DE GEUS, 'Beware: Innovation Kills!', in Frances HESSELBEIN, Marshall GOLDSMITH, and Iain SOMERVILLE, eds., *Leading for Innovation: And Organizing for Results*, San Francisco: Jossey-Bass, 2001, p. 230.

Raincoat, 'focused intelligence, the ability to acquire and apply knowledge and knowhow, is the new source of wealth', suggesting that the historical economic definition of business needs to be refined.⁴ In *Principles of Management: An Analysis of Managerial Functions*, Harold Koontz and Cyril O'Donnell state that 'business is any activity that is concerned with the production (or purchase) for sale of scarce goods and services' and that 'the purpose of business is to satisfy the economic wants of people, and, since resources are scarce, their efficient use is a socially responsive requirement.'⁵

Drawing on Derek F. Abell's framework for defining a business, Charles W. L. Hill and Gareth R. Jones indicate in *Strategic Management Theory: An Integrated Approach* that a business can be defined in terms of 'who is being satisfied', 'what is being satisfied' and 'how it will be satisfied'.⁶ This implies that a business is a process for transforming inputs (resources) into outputs (goods and services) that customers value. It is in this context that Peter F. Drucker states:

It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or for a service, converts economic resources into wealth, things into goods. . . . The customer is the foundation of a business and keeps it in existence. He alone gives employment. And it is to supply the consumer that society entrusts wealth-producing resources to the business enterprise.⁷

Unfortunately, it is also true that 'it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest'.⁸ Thus, a realisation that the entrepreneur, proprietor, or investor sets up a business in the belief and with the expectation that the enterprise will enhance and increase the value of his investment in the process of satisfying the needs of the customer. The investor, well aware that the law, society and prudent business practice conceive the proprietor (or shareholder) as a residual beneficiary eligible to receive benefits only after all others who have a claim on the business enterprise have been satisfied, expects to make a satisfactory return on

4 Charles HANDY, *The Empty Raincoat: Making Sense of the Future*, London: Arrow Business Books, 1995.

5 Harold KOONTZ and Cyril O'DONNELL, *Principles of Management: An Analysis of Managerial Functions*, 5th Ed., Tokyo: McGraw-Hill Kogashuka, 1972, p. 71.

6 Charles W. L. HILL and Gareth R. JONES, *Strategic Management Theory: An Integrated Approach*, Boston: Houghton Mifflin, 2001, p. 49.

7 DRUCKER, *The Practice of Management*, p. 37.

8 Adam SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations*, London: W. STRAHAN and T. CADELL, 1776, Book I, chap. ii, pp. 21-22.

the investment. It is this that imposes very onerous demands for the efficient, effective and prudent management of the business enterprise.

3. THE GOVERNMENT OF BUSINESS

Corporate governance is generally defined as

the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value with the satisfaction of other stakeholders in the context of its corporate mission.⁹

As far back as 1954, Drucker made the point that 'a business enterprise must have a government ... an organ of overall leadership and final decision, and an organ of overall review and appraisal'.¹⁰ He suggested that the governing organ must:

- Approve the decision what the company's business is and what it should be;
- Give final approval to the objectives the company has set for itself and the measurements it has developed to judge its progress toward these objectives;
- Look critically at the profit planning of the company, its capital-investment policy and its managed-expenditures budget;
- Discharge the final judicial function in respect to organization problems; and
- Watch the spirit of the organization ... make sure that it succeeds in utilizing the strengths of people and in neutralizing their weaknesses, that it develops tomorrow's managers and that its rewards to managers, its management tools and management methods strengthen the organization and direct it toward its objectives.¹¹

Drucker opined that those entrusted with the direction of the business enterprise 'have power over people, that their decisions have great impact upon society, and that they have to make decisions that shape the economy, the society and the lives of individuals within it for a long time to come'.¹²

9 Private Sector Corporate Governance Trust, *Principles for Corporate Governance in Kenya and a Sample Code of Best Practice for Corporate Governance*, Nairobi: Private Sector Corporate Governance Trust, 1999, p. 1.

10 DRUCKER, *The Practice of Management*, p. 119.

11 DRUCKER, *The Practice of Management*, p. 179.

12 DRUCKER, *The Practice of Management*, p. 382.

The same observation was made by the National Christian Council of Kenya in the report *Who Controls Industry in Kenya: Report of a Working Party*,¹³ published in 1968, in which it stated that:

Directors, of course have control over ... production policy, financial policy, and so on – these and other decisions affect the employment, the income, indeed the lives of hundreds of thousands of Kenyans. ... But, even more important, directors have power to control the future.

R. E. Thomas writes in *The Government of Business*:

What is needed is a new test of fit for our institutions in the government of business. ... That test of fit is their strategic capability. How wide-ranging is their awareness of the forces at work in the environment within which they operate? ... How far ahead are they able to even attempt to anticipate forces, economic, political, technical, or social that could affect their ability to do what they do now and the opportunities open to them? ... Business is not just administration of the present but anticipation and exploration of the future.¹⁴

Experts in management, governance and leadership increasingly agree that the business enterprise must now focus more and more on creating what isn't and not exclusively on improving what is, on managing the future from the present, and on anticipating the needs, tastes and fashions of tomorrow's client. Highlighting that business enterprises must now accept that the future is not the past again, these experts draw attention to the following key issues that they deem relevant to the management of every business enterprise:

- Customers and other stakeholders have launched an endless 'hunt for value' and consequently businesses must now increasingly, constantly and relentlessly focus on enhanced value creation for customers;
- The information age, with the resultant connectivity, assures success to only those enterprises that have a passion for value creation and which remain relevant, legitimate and responsive to the needs of customers and society;
- The primary issues that the governance and management of a business enterprise have to bear in mind constantly are;
 - What will capture critical value for the enterprise and deliver value to customers?

13 National Christian Council of Kenya, *Who Controls Industry in Kenya? Report of a Working Party*, Nairobi: East African Publishing House, 1968.

14 R. E. THOMAS, *The Government of Business*, Oxford: Philip Alan Publishers, 1976, p. 210.

- How can the organisation deploy and employ value-capture mechanisms so as to enhance customer loyalty and sustainable value for shareholders?

Good corporate governance is of interest to and affects all of us in one way or another:

- As society we are concerned to ensure that the license to operate granted to the corporation is used responsively and responsibly in the best interests of society to add value, and that entrusted wealth-producing resources are efficiently and effectively utilised.
- As consumers we are concerned to ensure that we get value for money, obtain the highest quality products and that we can trust and rely on the enterprise to supply when we need the goods or services.
- As investors or shareholders, we are concerned to ensure that our investments are secure, productive, sustainable and growing and profitable with protection of our rights.
- As directors we are concerned to ensure that the enterprises we direct are viable, sustainable, competitive, credible and accepted by consumers and society as reliable competitive, creative, innovative and credible.
- As employees we are concerned to ensure that the enterprises remain viable and sustainable and able to secure our jobs, pay and indeed pensions.
- As the youth or students, or the unemployed, we are interested to see corporations thriving and growing to ensure that we get jobs and employment tomorrow.
- As suppliers, contractors, or indeed financiers, we are concerned to ensure that the enterprises are well run and governed and that they remain viable and solvent, so that we can be assured of payment.

I requested you to bear in mind the lessons that I learnt some two score and two years past. Allow me now to ask you some key questions:

- Who has seen a cow, a dog, a donkey or any other animal purchase its own feeds or veterinary medicines?
- When is the last time you purchased an item that you did not feel was adding value or satisfying some need or want?
- How many of us value or do business with a collapsing business enterprise, venture or entrepreneur, except for purposes of buying off the business for a song?
- Would you, if you had a choice, buy from the seller who has no time for you and who makes you feel deceived?

It appears to me that, while every business enterprise has to make adequate returns to survive, it has to be governed or managed in such a manner as to add value to its customers and the society generally. I do not know of any company that is registered with the primary objective stated as being ‘to make money or profits’.

4. WHAT DOES GOOD CORPORATE GOVERNANCE AIM TO ACHIEVE?

Good corporate governance aims at:

- The increased profitability and efficiency of corporations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and increased benefits to all stakeholders;
- The transparency, accountability and probity of corporations, making them acceptable as the caring, responsible, honest and legitimate wealth-creating organ of society;
- The credibility of corporations and their increased capacity to attract investment in an internationally competitive environment;
- The sustainability and enhanced competitiveness of corporations in the liberalised, borderless global market;
- The enhanced legitimacy, responsibility and responsiveness of corporations within the economy and improved relationships with their various stakeholders – comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment – enhancing their market standing, image and reputation; and
- Ensuring the highest standards of corporate responsibility, citizenship and business ethics in an effort to strengthen mutual social responsibility, enhance the spirit of participatory development, create partnerships for progress and increase citizen engagement in establishing a secure and stable environment in which business enterprises can grow and thrive.

5. CORE PRINCIPLES OF GOOD CORPORATE GOVERNANCE¹⁵

5.1. Authority and Duties of Shareholders [or Members] – Shareholders or members [as owners] of the enterprise have a duty, jointly and severally, to exercise the supreme authority of the enterprise to:

15 Private Sector Corporate Governance Trust, *Principles for Corporate Governance in Kenya and a Sample Code of Best Practice for Governance*, 1999.

- Ensure that only competent and reliable persons, are elected or appointed to its Governing Board of Directors;
- Ensure that the Governing Board is constantly held accountable and responsible for the efficient and effective governance of the enterprise;
- Change the composition of a Governing Board that does not perform to expectation.

The governance framework must recognise and safeguard the rights of shareholders or members of the enterprise and those members must understand and collectively and individually exercise those rights and carry out their obligations. Those basic shareholder rights include:

- Securing methods of ownership registration;
- Conveying or transferring shares;
- Obtaining relevant information on the corporation on a timely and regular basis;
- Participating and voting in general shareholder meetings;
- Electing members of the Board; and
- Sharing in the residual profits of the company.

5.2. Leadership – Every Corporate Enterprise should be headed by an effective Board that should exercise leadership, enterprise, integrity and judgment in directing the corporation, so as to achieve continuing prosperity and to act in the best interest of the enterprise.

5.3. Appointments to the Board – Appointments to the Governing Board [of Directors] should ensure that there is a balanced mix of proficient individuals and that those appointed are able to add value and bring independent judgment to bear on the decision-making process.

5.4. Strategy and Values – The Board of Directors should determine the purpose and values of the corporation, determine the strategy to achieve that purpose, and implement its values in order to ensure that the corporation survives and thrives.

5.5. Structure and Organisation – The Board should ensure that a proper management structure [organisation, systems and people] is in place and that the structure functions to maintain corporate integrity, reputation and responsibility.

5.6. Corporate Performance, Viability and Financial Sustainability – The Board should monitor and evaluate the implementation of strategies, policies, financial sustainability and management performance criteria and the plans of the corporation, including the ‘annual solvency test’.

5.7. Accountability to Members – The Board should serve the legitimate interests of all members and account to them fully.

5.8. Responsibility to Stakeholders – The Board should identify the corporation's internal and external stakeholders, and agree on a policy or policies determining how the corporation relates to and with them.

5.9. Balance of Powers – The Board should ensure that no one person or group of persons has unfettered power and that there is an appropriate balance of power on the Board, so that it can exercise objective and independent judgment.

5.10. Internal Control Procedures – The Board should regularly review systems, processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at the highest level at all times.

5.11. Assessment [Evaluation] of the Performance of the Board of Directors – The Board should regularly assess its performance and effectiveness as a whole and that of individual members, including the Chief Executive Officer.

5.12. Induction, Development and Strengthening of Skills of Board Members – The Board should recognise the need for new members to be inducted into their roles and for all Board members to develop and strengthen their governance skills in light of technological developments, changing corporate environment and other variables.

5.13. Appointment and Development of Executive Management – The Board should appoint the Chief Executive Officer and participate in the appointment of all senior management, put in place a succession plan for senior management, ensure motivation and protection of intellectual capital crucial to the corporation, and ensure that there is appropriate and adequate training for management and other employees.

5.14. Adoption of Technology and Skills – The Board must recognise that to survive and thrive it has to ensure that the technology, skills and systems used in the corporation are adequate to run the corporation and that the corporation constantly reviews and adopts the same in order to remain competitive.

5.15. Management of Corporate Risk – The Board must identify key risk areas and key performance indicators of the corporation's business, and constantly monitor these factors.

5.16. Corporate Culture – The Board should define, promote and protect the corporate ethos, ethics and beliefs on which the corporation premises its policies, actions and behaviour in its relationships with all who deal with it.

5.17. Social and Environmental Responsibility – The Board should recognise that it is in the enlightened self-interest of the corporation to operate within the mandate entrusted to it by society and shoulder its social responsibilities. These include environmental conservation programmes, affirmative action programmes, employment and provision of social amenities.

5.18. Recognition and Utilisation of Professional Skills and Competencies – The Board should, collectively and even as individual members of the Board, have the right to consult the corporation's professional advisers and, where necessary, seek independent professional advice. It should also develop the professional capacity and competencies within the enterprise.

5.19. Corporate Compliance – The Board should ensure that the corporation complies with all relevant laws, regulations, governance practices and accounting and auditing standards.

5.20. Corporate Communication – The Board should ensure that the corporation communicates with all its stakeholders effectively.

5.21. Corporate Governance Reporting – The Board should issue a detailed Corporate Governance Statement, sharing how it has complied with the principles and codes of best practice, together with its half-yearly and end-of-year financial statements and report.

6. ACTIONS NECESSARY TO PROMOTE GOOD CORPORATE GOVERNANCE IN AFRICA

There is a need to:

- Promote community understanding and acceptance of the viable business enterprise as the organ of society that creates and produces wealth, generates employment and, hence, contributes to the alleviation of poverty.
- Promote greater public and community understanding of the benefits of good corporate governance and, hence, community participation and involvement in promoting, demanding and enforcing good corporate governance.
- Build capacity to upgrade the capabilities of the existing leaders of business through advocacy, awareness-raising, training and certification programmes. It is surprising that we demand minimum qualifications and a certificate of competence from

the *matatu* driver, the plumber and the mason, but neglect to demand a certificate of competence from those to whom we entrust the wealth producing and creating organ of society. It is even more surprising to learn that all we require is that they not be infants, overtly insane, or known bankrupts.

- Develop and improve institutions that have the capacity to implement and enforce best practices, including regulators, particularly in the financial sector and self-regulatory organisations.
- Develop systems for monitoring and evaluating compliance with good corporate governance practices and strengthening the incentives for good corporate governance. This demands that, at least in the short term, the society be prepared to recognise, acknowledge and reward good corporate governance.
- Establish well-regulated, well-functioning and competitive capital and financial markets that provide a disciplinary mechanism.
- Promote inclusive partnerships for sustainable wealth creation that involve both the public and private sectors, as well as the civil society.
- Update and strengthen the legal, judicial and tax systems.
- Develop and adopt supervisory arrangements that effectively place risk-management responsibility with the board of directors, instead of passing it to the supervisory agencies.
- Prepare future business leaders by introducing the subject of corporate governance into education programmes at all levels.

PROFIT MAXIMISATION AND BUSINESS SOCIAL RESPONSIBILITY OBJECTIVES IN BUSINESS MANAGEMENT

BENJAMIN O. MATURU

1. INTRODUCTION

Catastrophes experienced in the recent past, such as the Chernobyl nuclear energy disaster, depletion of the ozone layer, and wanton destruction of rainforests across the globe, especially in the Amazon region of South America, have rekindled the business social responsibility debate. The major question in the debate is whether business management should simply seek to realise the commercial objective of maximising returns on capital investment.

Extreme and moderate positions are held in this debate. Jackson and Musselman, for instance, maintain that many people are cynical about business operations and consider them to be driven by mere greed in seeking to realise the profit motive.¹

Positions held by participants in the debate largely derive from the participants' academic backgrounds. While economists, for instance, assume that the prime objective of business firms is to maximise total profit, sociologists and ethicists lay greater emphasis on contributions to the common good resulting from business operations. For many of them, the proper ultimate objective of business management is maximising society's total utility. Economists do not, however, advocate profit maximisation solely and at all costs. They hold that the prime objective of business is profit maximisation. In the course of pursuing private profit maximisation, however, net negative externalities (or social costs) may result and then compromise the common good. This is when business firms should act morally by pursuing profit, while also fostering the realisation of national goals and objectives.

In advocating moral business practices and hence the need for business firms to assume their social responsibilities, sociologists and ethicists do not entirely condemn the pursuit of profit, either. Apparently, therefore, there should be common ground on which pursuit of the seemingly

mutually exclusive business objectives can have positive feedback effects on each other.

This paper attempts to expound on the business social responsibility debate. Consequently, we analyse business management objectives from the perspectives of economists, sociologists, and ethicists, with a view to reconciling divergent views held by academics in these three disciplines.

We proceed to section 2, in which we outline the evolution of the social responsibility debate. We then provide an economist's perspective of what constitutes business management objective(s) in section 3. In section 4, we explain what the pursuit of business social responsibility entails and why it is considered to be a noble business management objective. Business social responsibility as it applies to firms in Kenya is outlined in section 5. We then explain in section 6 why business ethics is not, after all, a contraction in terms and, consequently, profit maximisation and business social responsibility are mutually realisable objectives of business management. We conclude the paper in section 7.

2. EVOLUTION OF THE BUSINESS SOCIAL RESPONSIBILITY DEBATE

The business social responsibility debate did not begin yesterday and did not begin in Kenya. For instance, Oliver Sheldon is quoted in Rue and Byars as having written in 1923:

It is important, therefore, early in our consideration of management in industry, to insist that however scientific management may become, and however much the full development of its powers may depend upon the use of scientific method; its primary responsibility is social and communal.²

Rue and Byars consider the evolution of the business social responsibility debate within the context of the United States of America (USA) to have undergone three phases, each of which emphasised different dimensions of multi-objective business management.³

Prior to the 1930s, a business manager's sole responsibility was maximising business profits. The social dimension of business management responsibility gained prominence from 1930s through the 1960s. Within the social dimension, a major consideration was better working conditions for employees and maintenance of good relationships with suppliers, customers, and creditors. Presently, business management concerns transcend the immediate community to embrace how to facilitate the realisation of major national goals and objectives.

2 L.W. RUE and L. L. BYARS, *Management: Skills and Application*, Sydney: Irwin, 1992, p. 117.

3 *Ibid.*

The precipitating factors for the increasing prominence accorded to the social dimension of the multi-objective role of business management are the actions of, for instance, environmental pressure and promotional groups. Other crucial groups include consumer associations and trade unions. One cannot overestimate the role of investigative journalism, through which business practices and malpractices are scrutinised and publicised.

3. THE COMMERCIAL BUSINESS OBJECTIVE

Because it is a science that deals with the satisfaction of human wants by judicious management of scarce resources,⁴ economics, and hence economic considerations, exert immense influence on business decision-making processes.⁵ Most development economists contend that the objective of development is not simply to produce more goods and services, but also to enable people to lead full, productive, and satisfying lives. Leading long lives, enjoying good health, having access to the available stock of knowledge, having sufficient access to food, clothing, and shelter, and participating in decision-making processes are key among human development considerations.⁶

It is notable that human development derives from the flow of economic benefits from utilising the available stock of natural, physical, and human capital. In order for the flow of economic benefits to be assured, not only for the present but also for future generations, the available stock of capital should be nurtured and utilised in a sustainable manner. It is in the best interest of business when business management strives to maximise profits responsibly by conserving the natural, physical, and social environments. This is true because:

The stock of natural capital can be consumed (as when ground water supplies are polluted by agricultural chemicals), maintained at a constant level of productivity (for example, by soil concentration) or augmented (for example, by tree planting programmes). The stock of natural capital can also be transformed into physical capital, as when raw materials are converted into intermediate goods such as steel and electricity and capital goods such as machine tools and factory buildings.⁷

4 M. P. TODARO, *Economics for a Developing World: An Introduction to Principles, Problems and Policies for Development*, London: Longman, 1977.

5 JACKSON and MUSSELMAN, *Business*.

6 B. O. MATURU, G. J. NDUATI, and W. M. MUTURI, 'Economic Empowerment and Democratisation in Kenya', in C. ETZOLD and S. K. MUTUKU, eds., *Institutionalising Democracy in Kenya: Prospects and Challenges*, Nairobi: DAAD, 2002, pp. 218-43.

7 JACKSON and MUSSELMAN, *Business*, p. 2.

It has been argued in the literature that the pursuit of the profit motive is likely to serve the social good, too, for as long as a business enterprise operates within a reasonably competitive market structure issuing correct market signals regarding costs of and rewards for economic undertakings. It is under the assumption of fully competitive markets that classical economists like Adam Smith advocated *laissez-faire*, believing that pursuit of self-interest cumulatively resulted in maximised societal well-being. Besides, it is further argued that the pursuit of self-interest is consistent with modern democracies that accord citizens with such basic human rights as the right to property ownership, the right to the profit incentive, the right to opportunity to compete freely, and the right to freedom of choice and contract.

A major counterargument to the pursuit of self-interest advanced in the literature is that in situations where markets fail or are non-existent for certain commodities, the pursuit of self-interest cannot simultaneously maximise the social good as well. Missing markets encourage individuals to maximise self-interest speedily in exploiting natural capital to the extent of, for instance, over-cutting forests, over-grazing pastures, withdrawing water in excess of the recharge rate, over-fishing bodies of water, and destroying the atmosphere, as evidenced in the depletion of the ozone layer.

Competitive exploitation of economic land, for instance, will be environmentally dangerous, since no one in private business will care about its associated detrimental externalities. Griffin and McKinley argue that government legislation and regulation should then be enacted and enforced to check such negative externalities.⁸ It is also recommended in the literature that in situations where markets are missing, the necessary markets should be fostered through provision of property rights over the commodity under consideration. Property rights should be enforceable and actually enforced, whenever necessary. Property rights may be borne by individuals, communities, the state, or supranational entities. An interesting case regarding this option is the controversial suggestion that provision of water resources should be privatised, in order to reduce wastage. It is argued that such a move would worsen the current poor state of accessibility to safe water among the rural and urban poor.⁹

A more practical option to checking abuse of the available stock of capital is private sector initiatives, such as formation of environmental pressure and promotion groups. Better still, pro-active business

8 K. GRIFFIN and T. MCKINLEY, *Implementing a Human Development Strategy*, London: Macmillan, 1994.

9 MATURU, *et al.*, 'Economic Empowerment and Democratisation in Kenya'.

management should be able to anticipate and pre-empt otherwise costly government interventions and pressure group initiatives by embracing acceptable business codes of ethics and assuming rightful shares of social responsibility. Thus, where markets have failed, social responsibility is a constituent part of an effective business manager's objective.

But what is the justification for seeking the profit motive? Marxists consider supernormal profit to be unethical, believing that it derives from exploitation of employees and consumers through poor factor service and product pricing policies that are embraced by the producers. If labour were to be paid according to its marginal productivity, for instance, then observed supernormal profits realised by some businesses would not obtain. For their part, capitalists consider profits to be a reward to investors for risking their capital in production firms. Business profits are also justified on the following grounds:

- Covering losses in future years, thereby ensuring survival of a business and continued supply of the commodity under consideration for the benefit of society;
- Rewarding efficiency and thereby encouraging efficient utilisation of scarce resources;
- Rewarding ingenuity in business management;
- Start up capital for the production of other commodities;
- Payment of individuals to a wide range of investors, for instance, stocks;
- Payment to government in the form of taxes, upon which the government provides public goods to the benefit of the community as a whole;
- The basis for job creation and job security for employees in business and allied services; and
- The basis for establishing meaningful social welfare schemes, such as medical insurance cover and charitable contributions.

In their justification of the pursuit of the profit or commercial objective by business management, Jackson and Musselman state:

Since the entrepreneur, the person who initiates and organises a business, risks time, money and effort, some argue that he should be allowed to make as large a profit as possible. Others feel that profit should be restricted to what is fair and reasonable.¹⁰

It must be understood, therefore, that the real issue about business profitability has nothing to do with whether a private firm should make a profit. The bone of contention is what constitutes *reasonable*, *fair*, or *just*

¹⁰ JACKSON and MUSSELMAN, *Business*, p. 10.

profit. An exact answer to this question, in the sense of quantifying the amount constituting *just* profit, is quite elusive.

Economists also do not advocate the making of supernormal profits by private-sector firms. They advocate fully competitive market structures that consistently deliver normal profits to entrepreneurs. Where, for reasons of market failure or missing markets, opportunities for making supernormal profits arise, rational entrepreneurs should blamelessly exploit such opportunities. As noted earlier, however, business management should consciously plough back some reasonable amount of profit to the community by assuming its rightful share of social responsibility.

Therefore, the realisation of supernormal profits should not be blamed on entrepreneurs, but on the prevailing non-competitive market structures. If the basis of the existence of such poor market structures is inappropriate economic policies, then the buck stops with policy-makers.

It follows, therefore, that under perfect competition management seeks to operate as efficiently as possible to satisfy self-interests (or the interests of shareholders, when business management is divorced from business ownership), with positive spillover effects to other members of society. Under such circumstances, consumers enjoy better services and higher-quality goods. In addition, inefficient utilisation of resources is minimised and society derives sustainable maximum utility from the available stock of capital. As noted earlier, this outcome is predicated upon fully competitive market structures, which rarely obtain in real life.

Thus, from a purely economic perspective, the ultimate goal of business management is the attainment of economic success. Social considerations are peripheral and, therefore, by-products of pursuing the profit motive. We argue in the following section, however, that social considerations are part and parcel of business management objectives, since fully competitive market structures are largely situated in economics textbooks and not in real-life situations.

4. THE BUSINESS SOCIAL RESPONSIBILITY OBJECTIVE

It is maintained that a business firm assumes a social responsibility when it acts in the public interest and helps to solve social and ecological problems. As in the case of the profit motive, in which the question of what constitutes reasonable profits is posed, the question of the extent to which firms should pursue the social responsibility objective without compromising the commercial objective is quite pertinent. Jackson and Musselman contend:

Businesses that are socially responsible pay attention to more than just short-term profits. They also monitor health concerns, consumer relations, employment practices, conservation of resources and the physical environment. How far should business go toward meeting social goals when pursuit of such goals may direct the company from economic goals?¹¹

Apparently in agreement with Jackson and Musselman – and this is collaborated by Weihrich and Koontz¹² – Needham and Dransfield argue that business firms should assume their share of social responsibility and operate ethically. They also assert: ‘Companies now realise that there is a *synergy* between the discovered innovative approaches needed to satisfy a purely commerce responsibility and those needed to satisfy, say, a problem of worker safety.’¹³

That management should address itself to realising the business social responsibility objective is also underscored by Torrington and Weightman. These authors explain that corporate governance entails

consideration of the way in which corporations are run in terms of being responsible for more than the immediate legal responsibility to shareholders, just as a party elected to govern a country has responsibility wider than those who voted for them.¹⁴

The basic question underlying this paper is whether business management should pursue social objectives in addition to its presumed prime objective of maximising profits. A popular model regarding this issue within the modern literature on effective strategic management considers the commercial and the social objectives to be mutually consistent. For instance, Jackson and Musselman hold that:

Business both affects and is affected by its environment By environment we mean the sum of all external forces that influence individuals, businesses and communities. It includes economic, political, social, physical and ethical elements, each overlaps and influence the others.¹⁵

These authors proceed to cite the example of Clifton C. Garvin, Jr., Chairman of the Board and Chief Executive Officer of Exxon Corporation, who, when he made a contribution of US\$ 58.2 million in

11 JACKSON and MUSSELMAN, *Business*, p. 30.

12 H. WEIHRICH and H. KOONTZ, *Management: A Global Perspective*, New York: McGraw-Hill, 1993, pp. 66–76.

13 D. NEEDHAM and R. DRANSFIELD, *Understanding Business Studies*, Cheltenham: Stanley Thornes, 1997, p. 588.

14 D. TORRINGTON and J. WEIGHTMAN, *Effective Management: People and Organisation*, 2nd Ed., London: Prentice Hall, 1994, p. 138.

15 JACKSON and MUSSELMAN, *Business*, p. 30.

the USA in 1984, observed that Exxon's giving was based on 'enlightened self-interest'. He explained:

This means that successful business does best in communities that are healthy, alive and secure. And that means that business has to look beyond its basic economic function. To stay in business, we have to make profit. To succeed in business, we have to share some of that profit beyond the dividends and taxes we pay, for the public goods.¹⁶

The pursuit of social responsibility has cost implications for a business and may not be actualised voluntarily at all times. Thus, market freedom should go hand-in-hand with appropriate and effective checks against business managers who flout social values. As discussed earlier, this is when appropriate legal frameworks should be established to ensure observance of safety regulations and consumer rights, and to encourage environmental conservation.

Among other things, and to be more specific, the law should guard against environmentally degrading projects and:

- Inferior and dangerous products;
- Unfair business practices, such as collusion in fixing exploitative commodity prices;
- False or misleading advertisements; and
- Unfair pricing policies.

All of that is in recognition of the fact that consumers have a right to:

- Product safety;
- Fair and honest transactions;
- True and complete data about products offered for sale; and
- Register complaints about shortfalls observed in product service.

Besides, media scrutiny of business malpractice will put business management on their toes regarding the observance of their respective social responsibilities. And, as noted earlier, pressure and promotional groups can play a similar role.

Most importantly, we agree with Bateman and Zeithaml that the law may have its limitations, since:

- Ethics is an individual matter that requires personal action. No one can rely on government, traditions, or industry norms to enforce ethical behaviour.

16 JACKSON and MUSSELMAN, *Business*, p. 34.

- All ethical decisions are guided by the underlying values of the individual.
- Ethics is more than just a fad; it is part and parcel of the conduct of business.¹⁷

This, therefore, calls for proper schooling, whereby our educational systems should inculcate good social and personal values into potential business managers and policymakers. In the process, good business practices will be fostered.

5. BUSINESS SOCIAL RESPONSIBILITY AMONG FIRMS IN KENYA

Owing to advances in information technology that have accelerated globalisation regarding virtually all aspects of humanity, business management trends observed in mature economies, such as the USA, have spread to emerging economies. For instance, the business social responsibility objective has attracted even greater attention among developing countries, such as Kenya. Perhaps this is because of the poorer communities in these countries, amid rapidly increasing populations that pose relatively more numerous and greater threats to the natural and social environments, when the pursuit of private profit leads to net negative externalities. In Kenya, the pursuit of business social responsibility by business management manifests itself in many different forms:

- Cleaning drainage systems and streets in the immediate business communities;
- Feeding street children;
- Provision of free medical care to the needy;
- Cash and material donations to children homes;
- Education bursaries to bright, poor students; and
- Aberdares Forest fencing sponsorship.

A common theme among firms that pursue the social responsibility objective is 'giving back to the community'. But why should business give back to the community? Is what is given adequate to create any meaningful impact? How does one reconcile such giving by business firms whose respective profits derive from, say, exploitative pricing policies?

Business giving is viewed as largely promotional of the business commercial objective. It is by and large meant to elevate the standing of the business under consideration in the eyes of consumers and the wider

17 T. S. BATEMAN and C. P. ZEITHAML, *Management: Function and Strategy*, Sydney: Irwin, 1993.

community, with the hope of eliciting favourable customer, supplier, or creditor consideration among the competition.

Additionally, business giving enables firms to enjoy cheap publicity through the mass media whenever such 'charitable' activities are mounted. Thus, pursuit of the social objective in this manner seeks to facilitate realisation of the commercial objective. It cannot be denied, however, that the beneficiaries do actually benefit, though in some cases to a very limited extent; a little benefit is better than nothing. In any case, since giving is voluntary, business firms have the option of giving nothing at all.

There is also little doubt that realisation of the commercial objective, possibly partly due to pursuit of an effective social responsibility objective, provides business management with a firm foundation for formulating and implementing more meaningful business social responsibility projects. *Therefore, business commercial and social responsibility objectives have mutually-reinforcing, positive feedback effects on each other. Consequently, they are not mutually exclusive, as is widely believed. Instead, the commercial and social responsibility objectives are mutually realisable, once they are carefully optimised by business management.*

Overall, as Bindra argues,¹⁸ the private sector should also pursue good governance. That entails that business firms assume their reasonable share of social responsibility.

Without naming names, we can say that there are many examples of firms that have apparently not applied themselves adequately to realising the social responsibility objective. These can be found within the textile industry, the petroleum industry, the brewing industry, and horticultural farms. Much of the problem with firms in this category has to do with poor terms of service and working conditions.

There are also contentious issues related to embracing social responsibility by financial institutions. It is argued that commercial banks have operated exploitatively, making huge profits, even when the economy is undergoing extremely difficult circumstances, by levying high ledger fees and lending rates of interest.

It is also notable that the mass media have played a vital role in checking wanton destruction of our forests. The best example is the Aberdares fund-raising project, spearheaded by the Nation Media Group. We have also witnessed the contribution of the Greenbelt Movement in

18 S. BINDRA, 'Private Sector Must also Embrace Good Governance', *Sunday Nation*, 2 March 2003, p. 16.

environmental conservation. The key activities in this regard have been planting trees and speaking out against grabbing forests and other parcels of land marked for the provision of public utilities.

6. BUSINESS ETHICS: NOT A CONTRADICTION IN TERMS, AFTER ALL

If we consider the business of business to be business (i.e. profit maximisation), then 'business ethics' is a misnomer and, therefore, a contradiction in terms. This is true, because business and ethics are two separate disciplines. It can, therefore, be argued that ethics is not a major concern of business management. As the preceding discussion shows, however, that does not mean that business management has nothing at all to do with ethics.

There is a part of ethics that relates to business practice and that should be the concern of business management. It involves concern about the acceptability, or lack thereof, of business practices subject to what society considers to be right or wrong at a particular point in time. Business management should be wary of trampling upon such societal rights, even if these rights contradict personal business management values. We cannot, therefore, entirely separate business from ethics, since it is the responsibility of business management to direct business activities in such a manner that they conform to prevailing societal values. Thus, business ethics is not a contradiction in terms.

The questions to contend with within the realm of business ethics include:

- Does the business render every stakeholder his (her) due?
- Does the business conduct its business transactions honestly?
- Does the business transact business without harming anybody or the physical environment?

When business social responsibility is pursued as an end in itself and not as a means of promoting business sales and profits, the key business management consideration is ethical behaviour. Ethical behaviour may not necessarily be an end in itself, but instead be predicated upon conserving or enhancing profitability. This is particularly the case when the government of the day is responsive to social values and can legislate against unethical behaviour. Under such circumstances, business management should be proactive and avert otherwise punitive legislation that could reduce future business profitability. It should be noted in this case that, while compliance with the law is mandatory, ethical behaviour

is not, at least for as long as legislation has not caught up with the business community regarding the subject of ethical behaviour.

Since business ethics, just as any other type of ethics, is rooted in the customs, culture, and belief system of a given society at a point in time, business ethics cannot be universal in every respect. Besides, business ethics is dynamic, evolving in tandem with the evolution of the customs, culture, and belief systems of a given people. The implication of these two points about the nature of business ethics is threefold.

First, business management should be responsive to the spatial distribution of business ethics. And nowhere else is this consideration more pertinent than in the case of multinational companies, which should design codes of ethics suitable for various subsidiary companies operating in different social contexts. Thus, business management should adjust accordingly in the event of transfers across such subsidiary companies.

Second, even within the same subsidiary company, business management should respond to the time-varying nature of business ethics by way of, say, redefining the business code of ethics to reflect observed changes in societal values.

The third implication is not all that obvious. Business ethics overrides personal ethics and, consequently, business management should be ready to sacrifice personal values for the sake of societal values, if they are to nurture business growth.

7. CONCLUSIONS

We have analysed the objectives of business management from the perspective of different academic disciplines and concluded that two prevalent positions can be held in the social responsibility debate. The responsibility of business management is primarily profit maximisation, but also primarily maximising social welfare. It is, therefore, implicitly accepted that the debate does not centre on an 'either-or' dilemma. Each of the two positions consents to a multi-objective responsibility of business management with shifting emphasis between the commercial and the social objectives among academics in varied disciplines. Thus, outright neglect of the social dimension of business management responsibility is irresponsibility, just as is pursuit of the social and communal objective to the neglect of the commercial.

While some business firms attend to the social and communal objective as an end in itself, in a majority of cases the objective is sought as a means of enhancing the realisation of the commercial objective. Regardless of the motive behind pursuit of the social responsibility

objective, what is important is that the objective is embraced by business management and that, consequently, business firms operate ethically.

Some instances of giving as a way to meet the social responsibility are highly dubious in terms of their morality. The case in point is when business firms pursue exploitative factors and commodity pricing policies to the extent of making supernormal profits, and then proceed to extend a fraction of that profit to the needy members of society! It is irresponsible, however, to require business management to unduly pursue the social responsibility objective to the neglect of the commercial objective. A firm cannot have the financial capacity to attain the social objective when it cannot attain the commercial objective. When a firm fails to assume its share of social responsibility, however, reasonable pressure should come to bear on it from pressure and promotional groups, such as the trade union movement, environmentalists, and consumer associations. Moreover, the government should legislate against business malpractice. The mass media should also play its role of publicising cases of business malpractice.

All in all, the manager who underplays his or her business social responsibility will attract the wrath of government and pressure groups. Therefore, business ethics is not a contradiction in terms after all, since business social responsibility is an integral part of an effective manager's objective.

CAPITALISM AND SOCIAL INVESTMENT IN AFRICA: CONTRADICTIONARY COMMITMENT TO DEVELOPMENT

O. F. EMIRI

Liberalism, or representative democratic government under the rule of law, creates the impression that all citizens have equal rights and are of equal value in society and that collective wealth is maximised for the people's happiness. When the veneer of liberalism is removed, however, we are exposed to a vast reservoir of structural inequality and social unhappiness. So successful has liberalism been in portraying society as a community of consensual, happy citizens that it may take some effort for us to see that it is not what it claims to be. To mask the reality, the founding documents and constitutions of most liberal democracies have sought to portray liberalism in consensual terms, by the use of the constitutive 'we', thereby giving the impression that liberalism is a catalyst of social justice. The U. S. Constitution of 1787, for example, begins with the words: 'We, the People of the United States . . .'. The Nigerian Constitution of 1999 begins similarly: 'We the people of the Federal Republic of Nigeria . . .'. The aim of these preambles is to give the impression that the documents are directed towards achieving social justice for their citizens.

Interestingly, liberalism is structurally connected to certain sets of fundamental presuppositions about society that are expressed under the rubric of legal positivism. This is the case, because liberal philosophy is intricately connected and related to legal positivism, especially in the way it presents the legal order and system as a neutral, objective, and independent mechanism for resolving social conflicts and tensions. Law is presented as wrapped up in the notion of the rule of law, the legal doctrine that all people are equally subject to law and can expect an objective, neutral, and unbiased determination of their rights in the body politic. It is not surprising, therefore, that it is widely accepted that the rule of law is the bedrock foundation for individual freedom and justice, free from tyranny, in the liberal democratic society. By providing us with a largely artificial understanding of the way the modern society works, liberalism has promoted the ascendancy of legal positivism.

Legal positivism portrays the law in a 'scientific' manner. From its perspective, the law is not primarily concerned with the 'rightness' or 'goodness' of a legal system, but with the identification of the central concepts of the law, as laid down by a political superior to his

subjects. Because positivism is committed to a 'scientific' method of human enquiry, it interprets the law as a collection of rules that can be authenticated as valid by the application of certain formulaic tests.¹ According to positivism, the law is not and should not be concerned about the values that inform these rules. As a result, it banishes to the periphery of the law the moral, political, and social values that may question its 'scientific' approach to the law. Unfortunately, positivism constitutes the methodological infrastructure of Western legal discourse, which has been transplanted into most jurisdictions in Africa under the mask of representative democratic government under the rule of law. The doctrine of law based on an understanding of positivism has been an autonomous, self-contained system, uninvolved with morals, and has had adverse political consequences for developing economies, especially in Africa. By banishing from the inquiry of law broader sociological enquiry about the nature of class production and of capitalism, when law is in fact intimately involved in the process of reconstituting the relations of capitalism and, as an institution, plays a primary role in class subordination, positivism have fuelled capitalism and is a major cause of the underdevelopment of the continent.

Since legal positivism constitutes the predominate understanding of law, it follows that in matters of business management the objectives that a business manager ought to pursue can only be those within the parameters of what is a legally permissible business objective, without his looking behind the law for the values that might inform it.² The justice or fairness of the law is of little or no consequence in his framing of his objective.

In this paper, we shall consider the permissible objective of business management, especially from the background of legislation relating to business enterprises, with a view to identifying the adequacy or inadequacy of its framework for the pursuant of social justice. Next, we shall consider the desirability of applying it to African economies. It will be shown that positivist notions have failed to produce the desired end for business management, and that Africa needs to aim legislation in a direction that maximises the financial variables of all relevant persons in the business environment. It is suggested that utilitarian ethical theory can provide guidance in this endeavour.

1 John AUSTIN, *The Province of Jurisprudence Determined*, London: John Murray, 1832; H. L. A. HART, *The Concept of Law*, Oxford: Clarendon Press, 1961.

2 TOM HADDEN, *Company Law and Capitalism*, 3rd Ed., London: Butterworth, 1995.

1. CAPITALISM AND THE OBJECTIVE OF BUSINESS MANAGEMENT

There are certain key terms in this paper that require clarification, so that we can maintain some level of conceptual purity within the scope of the paper: 'social investment', 'social responsibility', and 'capitalism'. I use the term 'social investment' interchangeably with 'social responsibility', even though the two terms may not be strictly synonymous. In the context of this paper, we shall understand the term 'social investment' or 'social responsibility' to mean 'investment strategy that tempers the conventional objective of maximising the investor's financial interest by seeking to promote non-financial social goals as well'.³ While it is conceded that not every financial expert will agree to our definition of social investment or responsibility in a form that gives the appearance that it is a trade-off between social and narrow financial interest, in the sense that social investment invariably shades into financial profit maximisation, we have chosen to exclude the vexed question of profit maximisation policies, because they raise different legal and economic issues, somewhat distant from the philosophical enquiry sought here. Accordingly, our understanding of social investment will take on the meaning of that which is the opposite of narrow and immediate financial goals.⁴ In this context, financial goals can be likened to the financial 'best interest' objective of an investor, as declared by Sir Robert Megarry VC in *Cowan v. Scargill*.⁵ He wrote that 'best interest' is the best financial interest of a beneficiary under a trust, and that it would be wrong to subordinate considerations of financial returns to non-financial criteria, be they ethical, moral or political.

Because of the parallel that exists between the relationship of trusts and business organisations, especially in cases where a trustee is appointed with powers to make investments on behalf of a beneficiary, we shall quote the classical statement of his Lordship. The case was concerned about the reservation of some trustees of a trust fund in approving certain investment plans considered objectionable to them. In holding that this constituted a breach of their fiduciary duties as trustees, Megarry wrote:

The duty of the trustees towards their beneficiaries is paramount. They must, of course, obey the law; but subject to that, they must put the interest of the beneficiaries first. When the purpose of the trust is to provide financial benefits for the beneficiaries, as is usually the case, the best interests

3 J. H. LANGBEIN and R. A. POSNER, 'Social Investing and the Law of Trusts', *Michigan Law Review* 79 (1980), pp. 72-73.

4 *Ibid.*

5 *Cowan v. Scargill* (1985), ch. 270.

of the beneficiaries are normally their best financial interests. In the case of a power of investment, as in the present case, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investments in question; and the prospects of the yield of income and capital appreciation both have to be considered in judging the return from the investment. . . .

In considering what investments to make, trustees must put on one side their own personal interests and views. Trustees may have strongly held social or political views. They may be firmly opposed to any investment in South Africa or other countries, or they may object to any form of investment in companies concerned with alcohol, tobacco, armaments or many other things. In the conduct of their own affairs, of course, they are free to abstain from making any such investments. Yet if under a trust investments of this type would be more beneficial to the beneficiaries than other investments, the trustees must not refrain from making the investments by reason of the views that they hold.⁶

Since companies and business organisations are primarily established to provide financial benefits to their owners, it follows that, as in cases of trusts, the maximisation of owner value in the form of profit maximisation is the ethic subscribed to by the law. Any other goal will be unlawful, even if the manager imagines it desirable on ethical grounds. He acts, just like the trustees, as an agent of the owners of an organisation, who set out to maximise financial benefit or yield of income, provided the investment plan does not depreciate capital or the financial base of the organisation.

From this it follows that non-financial goals, in the sense of non-maximisation of the investors' financial goals, are considered social investment. Thus, if a company's funds were used to build a hospital in the community where it is sited, for example, such an investment would be considered non-financial, but instead social, in the sense that the investment would not maximise the investors' financial goals. Such an investment would be considered social in the sense that it might not bring immediate financial return.

'Capitalism' is employed here to denote a political-economic system based on the idea of the political (liberal) rights of man and private ownership of the means of production.⁷ Because of the link between liberal positivism, with ideas of abstract rights, which leaves undisturbed the nature of class production and private ownership, capitalism has created certain inherent contradictions, such as economic inequality and

6 *Ibid.*

7 HADDEN, *Company Law and Capitalism*, n. 2.

concentration of wealth in the hands of the few. Since positivism's basic explanation of law is that it is a collection of rules authenticated as valid by appeal to certain formulaic tests, this position sustains the existing power relation of the classes. It is in this context that we can state that the majority of African political-economic systems are a reflection of the Western structure of capitalism.

2. AGENCY THEORY AND THE LAW

The philosophical underpinning of the present regime of business management emphasises the maximisation of owner value. To this end, the various legislations relating to the aims of business organisations have been structured towards agency theory – the predominant Anglo-American structure of capitalism. In Nigeria, for example, the Companies and Allied Matters Act of 1990 is the main legislation regulating the affairs of companies, whether private or public. The Act subscribes to agency theory as the fundamental objective of business organisations in Nigeria. The Act does this within the framework of classical company law principles enacted in the Act itself and supplemented by common law.⁸ The various stipulations, such as the *ultra vires* doctrine,⁹ the legal consequences of incorporation,¹⁰ and several other principles, are designed to keep a company within the restricted square of maximising the owners' financial goals. This is not surprising. Generally, the motivation for incorporating a business is profit. The early history of British commercial organisations prior to the Bubble Act of 1720 clearly shows that they were formed to promote the financial interests of their members. The Bubble Act was passed in response to the financial speculative mania at that time in securities of commercial organisations. It was intended to prevent persons from presuming to act as a corporate body. This objective was substantially subverted, however, by the use of unincorporated trust deeds of settlement. That was the position in England until opposition to limited liability was overcome when the Limited Liability Act of 1855 was enacted. Prior to the 1855 Act, incorporated or joint-stock companies were carried on by trustees under a trust deed and transacted business with the caveat that the liabilities of their shareholders were limited in the deed of settlement. This principle of limited liability of the owner and the notion of operating under a body separate from the owners with a view to maximising financial objectives is what is now largely

8 Companies and Allied Matters Act, 1990 (CAMA 1990), sections 38–40.

9 *Salomon v. Salomon & Co.*, 1897, AC 22; see also CAMA 1990, section 37.

10 Cf. C. A. COOKE, *Corporation, Trust and Company, An Essay in Legal History*, Cambridge, Massachusetts: Harvard University Press, 1951, pp. 86–87; A. B. DUBOIS, *The English Business Company after the Bubble Act 1720–1800*, New York: Commonwealth Fund, 1971, p. 3.

incorporated into modern company law.¹¹ This largely explains why the managers of business organisations, such as directors, are like trustees and are treated as fiduciaries to their owners and companies.¹² Trust principles are what the law has now crystallised into modern company law. Business association with the structure of a limited company, chiefly in order to acquire the benefit of limited liability, is the product of the trust device.¹³

Because a company is in law an artificial person, it can only do things that are within its objects, as spelt out in its memorandum of association.¹⁴ Attempts to act outside the objects will be acts in want of capacity or authority. Such an act will be *ultra vires* the company. Section 39 of the Act expressly stipulates that the company 'shall not carry on any business not authorised by its memorandum' of association. The memorandum and articles of association constitute the basic contract between a company and its owners/shareholders, and between the owners and its agents or managers. In effect, they can only operate as permitted by these documents. Since the documents are couched in such a way as to maximise the financial goals of the company, this invariably means that its managers can only operate within the ambit of maximising the financial goals of the owners. Thus, embedded in the *ultra vires* doctrine is a desire not only to keep the company within its stated objects, but also to preserve the financial interests of the owners/shareholders, who can go to sleep with the hindsight that the doctrine will prevent its agents from the use of its funds in unauthorised business or for the pursuit of social, as opposed to financial goals.

The Act makes little pretence as to what the aim of a business organisation should be under the provisions dealing with incorporation. It expressly states in Section 19(1):

No company, association or partnership consisting of more than 20 persons shall be formed for the purposes of carrying on any business *for profit or gain* by the company, association or partnership, or by the individual members thereof, unless it is registered as a company under this Act, or is formed in pursuance of some other enactment in force in Nigeria (emphasis added).

This implicitly recognises that a company incorporated under the Act sets out to make profit or gain. It is on this basis that the Act sets out in detail various provisions safeguarding the income and capital of a company. A

11 Cf. CAMA 1990, sections 279, 280, and 282.

12 L. C. B. GOWER, D. D. PRENTICE, and B. G. PETTET, *Principles of Modern Company Law*, 5th Ed., London: Sweet & Maxwell, 1992, Chaps. 2-3, 9; Graham MOFFAT, *Trusts Law: Text and Materials*, 2nd Ed., London: Butterworth, 1994, chap. 13.

13 See, generally, CAMA 1990, sections 231-386.

14 CAMA 1990, section 38(2).

company is prohibited from making donations or gifts, either directly or indirectly, to a political party or association, or for any political purpose.¹⁵

The owners of a company are its shareholders, those who make financial contributions with a view to becoming owners.¹⁶ Since the Act is built on the framework of capitalist ethics, the agents of the owners are made accountable to them through various mechanisms, prominent among which is the general meeting. The Act permits the owners to appropriate the surplus of their enterprise, after fulfilling statutory regulations as to payment of its debts and levies to government, as are imposed. There is no room for allocation of part of a company's profit to its workers, save as permitted by law. Section 384 states an express exemption. If, under his contract of service, an employee is entitled to share in the profits of the company as an incentive, he shall be entitled to share in the profits of the company. This is itself implicit recognition that profit sharing with workers can be an incentive that fosters industrial harmony and long-term economic growth.

For example, if a company makes a profit of one million naira after paying its debts and taxes, the structure of the Act dictates that the sum may be used in pursuit of the financial goals of the company in the form of dividends to shareholders and for such further financial investment related to the objects of the company, as set out in the memorandum of association. Thus, the owners can exclusively appropriate whatever profits a company makes, if they so desire. Thus, the agency theory of capitalism, which constitutes the structural foundation of modern company law, dictates that the good for which companies shall aim is exclusively the financial goals of the owners.

3. FROM AGENCY THEORY TO UTILITARIANISM

What has been the result of Anglo-American agency theory? Strikes, industrial disharmony, ethnic unrest from host communities, and economic regression. The theory is responsible for creating the impression that those business organisations are exploiters of their workers and in some cases their host communities' resources. In the final analysis, the stakeholders in the business environment (workers and host communities) are unhappy and the company's profit may be affected. Unrest reduces the financial gain of companies and reduces capacity utilisation. This is why an increasing number of scholars are beginning to decry investment strategies that seek to maximise purely financial

15 *Ibid.*

16 CAMA 1990, section 39.

goals, with little or no regard to ethics and fair play. Moralists and social philosophers are increasingly questioning the Anglo-American empirical materialistic and individualist ethics that forms the bedrock of business objectives. These scholars question the exclusive recognition of owners' values being selfish. Since ethics presents us with the question – What ought we to do? – and agency theory has not produced the collective good and happiness of all stakeholders, we are forced to consider wider theories that can form the basis of better business management.

Complementing owner value with a measure of social investment is considered an alternative. Unfortunately, under the present structure of company legislation and the common law, social investment is undesirable, because it appears to reduce overall utility, as broadly defined by owner value. A manager or director who sacrifices the owner's financial well-being for anyone else's will be in breach both of his duty of loyalty to the company (in reality the owners) and his duty of prudence in investments.¹⁷ The essence of the duty of loyalty or fiduciary duty is to ensure that he only deals with his company's property for the benefit of the owners/shareholders. In this respect, the director/agent is treated as no different from a trustee who is under a duty to the beneficiary to administer the trust property solely in the interest of the beneficiary. Just as the trustee is under an imperative duty to consider as paramount the best financial interest of the beneficiary and not any stranger to his trust, a business manager is likewise under an imperative duty to consider the best financial interest of the owner and not the members of the host community, considered as strangers to his agency. It is, therefore, not surprising that the law treats managers and directors as trustees or persons within the fiduciary square in relation to their company. Therefore, any investment for the benefit of workers or the community embarked upon by a director is to every extent undesirable in law.

Unfortunately, the result of preventing any other investment save that which maximises owner value has not brought peace, harmony, and happiness in business organisations. Workers are increasingly demanding a slice of the cake of company profits, and where this is not met, they have resorted to down-toll, unrest, strike, and sometimes violence. This is so, despite several pieces of legislation that seek to prevent strikes and labour unrest. Some of the host communities in which multinational companies operate are also demanding restitution, compensation, or some form of social infrastructure from the companies operating in their areas. Where these are not met, unrest has followed. In Nigeria, especially in the oil

17 See, generally, on the *ultra vires* doctrine, M. O. SOFOWORA, *Modern Company Law in Nigeria*, Lagos: Soft Associates, 1997, pp. 66–71.

region, communities have been known to hold companies operating in their areas at ransom. It is no longer news to hear stories of communities holding oil workers as 'ransom' for lack of social infrastructure or compensation/restitution, as the case may be. Pleas by the oil companies that such obligations are owed to the communities by the government (to which the oil companies pay taxes) have often fallen on deaf ears. Work stoppages, in turn, have adversely affected the financial returns of the companies. Because of the rampancy of such agitations, some companies are now beginning to recognise a wider perspective of investment, with the possibility of including social objects. The Niger Delta Development Commission in Nigeria, established by the government to provide some infrastructure in the oil-rich Niger Delta region, receives supplementary funding from the oil communities. Some of the companies are themselves now engaged in building roads, schools, maternity centres, and the like for their host communities, to assuage restive neighbours. In present day Nigeria, almost all the oil companies operate community development departments aimed at social investment in their areas of operation. The legality of this noble aim remains controversial.

Since the positivist framework of present company law discourages social investment, it means in effect that any policy geared towards it is a call to consider the context of law. Though the positivist would want us to interpret law as an autonomous social practice divorced from values, such as those studied by politics, ethics, sociology, etc., his abstract and impersonal perception cannot find justification in our modern society, where concern about contextual law is blossoming, because it is reasoned that law cannot afford to remain non-contextual, since it concerns the concrete lives of the persons affected by it. The unnecessary emphasis placed on its determinacy, neutrality, and objectivity merely massages the ego of capitalism, and can hardly guarantee the maximisation of goodness and happiness. For example, its rhetoric of rights is merely a transcendental phenomenon that can mystify us and merely cement the existing capitalist legal order. Why? Because, rights can only protect in reality ephemeral things such as free speech, the right to life, etc., but cannot guarantee real human needs and tangible things and values, such as economic justice and well-being, considered by Aristotle to be the proper aim of every art and every investigation. There is, therefore, the need to contextualise law to meet the demands of reality.

Ethics invites us to do so. It is concerned with the question, 'What ought we to do?'¹⁸ It furnishes us with a standard by which to judge the law, in that it enables us to distinguish between right and wrong. Since

18 D. R. BALI, *Introduction to Philosophy*, New Delhi: Sterling Publishers, 1997, p. 137.

the aim of law is to produce collective goodness and happiness, it follows that the positivist scientific explanation of law, which seeks to banish values, is questionable on ethical grounds, and so is the superstructure of modern company law.

We need to replace the ethics of agency theory in business management with a new ethic that seeks to accommodate the various competing interests in a complementary way. The ethical question, therefore, revolves around how African business enterprises, built largely on the Anglo-American model, can minimise the adverse effects of capitalism and substitute or complement the Anglo-American model with a new set of ethical foundations that can cater to all stakeholders in the business environment – owners, workers, host communities, and other proximate third parties – by a system based on sound moral philosophy, which can minimise economic exploitation and guarantee some measure of fair distribution of profit or economic wealth.

This is a task that has been taken up by moral philosophers. They have long investigated the question – What is the good? – a question directly related to – What should be the aim of life? Moral philosophers generally agree that the answer to the question is located in the pursuit of goodness and happiness as the goal of every human endeavour. Aristotle stated that all the major areas of human experience and activity are linked with the supreme goal, i.e. happiness, as means and end.¹⁹ Therefore, ethics that promotes only the interests of the owner by maximisation of his share price, rather than the happiness of all stakeholders in the business environment, is undesirable, to say the least. In contrast, it is conceivable that the moral principle of utility can provide a basis for the supreme goal of happiness, because, as a moral principle, it is concerned with overall happiness.

Utilitarianism has assumed a number of forms in ethical theory. Act-utilitarianism enjoins that a person should perform the act that will have the best overall results, and that if there is no optimific act, a person should perform one of a set of acts that will have equally desirable results.²⁰ In effect, this school of philosophy is directed to the happiness of all concerned persons, for the act-utilitarian wishes to achieve maximum overall good by enjoining every moral agent to perform the act that produces the overall best result. When transposed into the content of what ought to be the aim of business organisations, it requires that a company's objective should not necessarily be the maximisation of owner value, but

19 ARISTOTLE, *Nicomachean Ethics*, Book I.

20 D. C. EMMONS, 'Justice Reassessed', *American Philosophical Quarterly* 4 (1967), p. 144.

the pursuit of goals that will produce the best result.²¹ That which will maximise overall good certainly would require that management should promote the interests of everyone affected by its operations: workers, host communities, etc. That certainly will require a business organisation to aim at wider objectives that can produce happiness for workers and other proximate persons. Nigeria's Companies and Allied Matters Act explicitly recognises that a slice of profits to workers can have such an effect. Section 384 authorises profit sharing with an employee, if his contract of service stipulates a profit-sharing clause as an incentive. Thus, in effect, the Act admits that profit sharing is an incentive. But the incentive can only be enjoyed if it is contained in a contract of employment. All the Act needs to do is delete the proviso that profit sharing can only be enjoyed if stipulated in a contract. If that proviso is removed and workers can have the incentive of profit, by certain legal mechanisms to be introduced, industrial harmony and productivity will no doubt increase. Then workers will be able to see themselves as partners in their enterprises, no longer as paid hands who are exploited. Social investment in the form of infrastructure for host communities creates a cordial environment and can maximise the overall interest of owners, in the sense that peace can generate growth and profit. Utilitarianism, therefore, subscribes to an ethic that is humane, in that it recognises the situation of man as the supreme object of philosophical enquiry.

4. CONCLUSION

The proper objective of business management is the promotion of the utility or happiness of all. In this respect, African economies must learn how the Japanese have employed the principle of utility as its fundamental ethic for development and creating industrial happiness. Japanese products are visible friends in every home – from electronic goods to automobiles, etc. How did they accomplish this? Six decades ago, Japan was a country struggling to pick itself up after World War II. The entire world is now amazed and impressed with its material and social progress.²² What is responsible for this impressive miracle? Studies show that the unrelenting work ethic and the willingness of the people to make sacrifice for the 'utility' of all have contributed immensely to its progress. How do the companies contribute to the Japanese miracle?

Most large companies in Japan do not seek only to maximise owner value. For example, companies are known to provide life employment, continuing education, and housing and recreational facilities to their

21 *Ibid.*

22 *Awake Magazine*, 8 May 1985, pp. 3–10.

workers. Workers receive semi-annual bonuses according to the company's financial returns. Decision-making involves some modern form of democracy.²³ Unlike the Anglo-American style, where workers follow their managers, Japanese workers move together with their superiors. Because the workers have a slice of the cake of profit and are a part of the decision-taking process, strikes are rare. Without doubt, the objectives of companies in Japan have contributed to the overall performance of its economy as a unique phenomenon. It is no wonder that the country has built itself up from the ruins of World War II to become one of the world's strongest economic powers.

What can we learn from the use of the utility principle in Japan? African countries anxious to develop must fashion a different philosophical ethic of business management not patterned from the Anglo-American tradition. The 'utility' principle should be the aim of our business organisations. When business aims at maximising the value of owners and workers in terms of social utility, the relationship between them becomes complementary, not adversarial. The invariable result will be increased industrial harmony and productivity, which will translate into a better and stronger economy. Furthermore, when business also aims at social investment in its host community, improved relationships between it and the community will not only complement government efforts in providing infrastructure, but can also improve long-term profit. Under a scheme of utility, the African economy can find the basis for development and industrial happiness. We may need to amend the basic structure of our commercial law to achieve this.

THE MISAPPLICATION OF THE CONCEPT OF AGENCY TO FINANCIAL MANAGEMENT THEORY

LUIS FRANCESCHI

Modern financial management theory identifies a constant tension between shareholders and managers.¹ Most scholars tend to place themselves on the side of the shareholders and see it as their momentous task to entice managers to act as true agents of the shareholders. Agents, as fiduciaries, must renounce the thought of self, 'however hard the abnegation'.²

It is thought that the relationship between 'shareholders' and 'managers' is the same as the relationship between a principal and an agent, as understood by the law, and that managers are to act as 'true agents'³ of the shareholders. This view has triggered a sort of academic domino effect, where certain legal concepts have been borrowed by financial management theory and used in what may be termed unorthodox ways, possibly without assessing the full impact that such a view would bring about.

'Agency' is a term borrowed from law and has its origins in Roman law. For the Romans, an 'agent' was the one who set up relations between a principal and a third party, taking no rights and incurring no liabilities, but acting as a mere conduit.⁴ In modern law, the concept of agency is essentially the same. Treitel⁵ defines it as a relationship that arises when one person, called the principal, authorises another, called the agent, to act on his behalf, and the other agrees to do so. It enables the agent to make a contract between his principal and a third party.

It is essential to a contract of agency that, by virtue of the agent acting on the principal's behalf, the burden of liability should rest on the principal. This, coupled with the maxim that an '*agent must intend to act on behalf of his principal*', distinguishes agency from other analogous

1 For the sake of simplicity and clarity, I use the terms 'manager' and 'director' as synonyms, implying the same level of responsibility in relation to the 'company' or 'firm' or 'corporation'. I also use the terms 'shareholder', 'owner' and 'member' as having the same meaning.

2 *Meinhard v. Salmon* (1928) New York.

3 It is simplistic to conclude that managers are agents of shareholders before having studied the concept and the nature of the agency relationship in depth.

4 W. W. BUCKLAND, *A Textbook of Roman Law from Augustus to Justinian*, 3rd Ed., Cambridge: Cambridge University Press, 1966, p. 519.

5 G. H. TREITEL, *The Law of Contracts*, London: Sweet & Maxwell, 1991, p. 608.

relationships.⁶ For example, Treitel says that a retailer may describe himself as an agent of the manufacturer whose products he sells. This is legally accurate, if the retailer gives an account to the manufacturer of the price paid by the customer and is remunerated on the basis of a commission paid by the manufacturer. Generally, however, the retailer is simply a middleman, who buys and resells on his own behalf, and thus is not the manufacturer's agent. The same may apply to hire-purchase and the provision of service relationships, where a party may be carrying on the business of an agent without being one: 'To carry on the business of an "agent" is not the same thing as saying that you are contracting as an agent.'⁷ Thus, for a relationship to be established *de iure* and *de facto* as an 'agent-principal relationship', the nature of the contract and the relationship itself must be firmly identified and be susceptible of accommodation into the legal frame that defines an 'agency' contract, i.e. there must be a principal and an agent whose actions are on behalf of the principal and, therefore, imputable to him.

In some instances, however, it may be clear that one party is an agent, but not be clear whose agent he is. This may be the case especially in implied agency agreements according to the doctrines of apparent and usual authority, or where a person has authority of necessity, or even by *ex post facto* ratification. Nevertheless, any agency relationship is identified by the very metaphysical nature of the relation itself, which is what gives birth to a reality the law seeks to express, regulate, and protect. And the most logical way to discover such a nature is to examine the presence of the essential elements of agency in the relationship. These elements may be summarised as follows:

1. The existence of a principal
2. The presence of an agent who acts on the principal's behalf
3. The imputability of the acts of the agent upon the principal as his own acts
4. A real and proper metaphysical basis of the agent-principal relationship, which gives rise to the legal framework, i.e. a contractual agreement

Due to the legal nature of 'agency', only a person is able to act as a 'principal', since only 'persons' are liable. In order to study the nature of the shareholder-corporation-manager relationship, it is imperative to focus our attention on the nature of the corporation as the link through

6 See *Ireland v. Livingstone* (1871) LR 5 HL 395 and *Kloeker & Co. AG v. Gastoil Overseas Inc.* (1990) 1 Lloyd's Rep. 177 (TREITEL, *The Law of Contracts*, p. 609).

7 *Elektronska etc. v. Transped etc* (1986) 1 Lloyd's Rep. 49, 52; cited by TREITEL, *The Law of Contracts*, p. 610, n. 24.

which all shareholder-manager relations pass. Therefore, we will focus our attention on the legal person and study its real or fictitious nature; for once we have the agent, we must look at who is responsible, in order to establish whose agent he is.

1. THE CORPORATION'S LEGAL PERSONALITY

In legal theory, the terms 'company', 'corporation', and 'firm' denote an association⁸ of persons⁹ for some common object or objects.¹⁰ In ordinary language, the words 'company' and 'corporation' are normally reserved for associations formed for economic purposes: *to carry on a business for gain*.¹¹ This concept has evolved over the years.

1.1. HISTORICAL OVERVIEW¹²

Different forms of association were known in mediaeval law. In some of them, the concept of incorporation was recognised early. This concept, however, seems to have been used only in connection with ecclesiastical and public bodies, such as chapters, monasteries, and boroughs. These bodies had a distinct corporate personality conferred on them by the Crown.

In the mercantile realm, the earliest trade associations were *guilds of merchants*. To obtain a monopoly over local trade, it was necessary that the *guilds* be incorporated. This could only be done by obtaining a charter from the Crown.¹³ Though the guilds had an existence separate from their members, they never resembled modern companies, because their members traded on their own account and were liable for their own debts. By the end of the 16th Century, the guilds were referred to as 'companies'.

The first type of English organisation to which the name 'company' was generally applied was that adopted by adventurers for trading overseas.¹⁴ From 1692, there are records of a new type of company, known

8 There must be the establishment of a relation.

9 Natural or legal persons.

10 This is the purpose or reason for the establishment of a relation between different persons.

11 Although not universally, as we still talk about an infantry company, a livery company, or even 'the glorious company of the apostles'.

12 For a deeper understanding of the history of company law, see W. S. HOLDSWORTH, *A History of English Law*, London: Sweet & Maxwell, 1966.

13 See L. C. B. GOWER, *Principles of Modern Company Law*, London: Sweet & Maxwell, 1992, pp. 19 ff.

14 Royal charters granting privileges to such companies are already found in the 14th Century.

as the 'joint stock company'.¹⁵ Hereunder, in addition to trading on their own account, the members would operate a joint account with a joint stock. Joint stock companies enjoyed some advantages of incorporation, for example, the ability or capacity to sue outsiders in their own name, but they never possessed the main advantages of the modern company – limitation of members' liability.

Soon afterwards, the decline of large monopolistic companies saw a boom in the formation of domestic companies. The companies were formed under 'contract', since the procedure for obtaining a charter was frustratingly slow and expensive. The contracts would usually contain rules for the conduct of members and provide for share transfers. The domestic companies became unpopular with the legislature, however, due to a large number of abuses and fraudulent shares.

In order to check this boom in speculative and fraudulent company promotion, a panic-stricken parliament passed the Bubble Act of 1720. The Act, in its penultimate section, enacted that all undertakings purporting to act as corporate bodies without legal authority, 'tending to the common grievance, prejudice and inconvenience of His Majesty's subjects', should be illegal and void.

The effect of the 1720 Act was to suppress business associations and to make it difficult for them to obtain corporate form. This Act was repealed by a new Act of Parliament passed in 1825. The new Act gave birth to modern company law. The legislature, in the decade following the 1825 Act, faced the problem of the evolution of unincorporated companies with their cumbersome constitution; it conferred legal status and the great disadvantage of merely contractual limitation of liability of members.¹⁶ On the other hand, incorporation had clear advantages, as it was capable of existing in perpetuity, it could sue outsiders and its own members, and the possession of a seal facilitated the distinction between the acts of the members and the act of the corporation.¹⁷

1.2. INCORPORATION

Among the many effects of incorporation, the most relevant is the birth of a new entity, a subject of law, with rights and duties of its own, independent of its members and owners, and with the possibility of unlimited life. This birth is for some a fiction and for others a metaphysical fact, the product

15 Stock is understood in this sense as stock in trade, not as in 'stocks and shares'.

16 See Francis PALMER, *Company Law*, under the general editorship of Clive SCHMITTHOFF, 24th Ed., Vol. I: *The Historical Evolution of Companies*, London: Stevens & Sons, 1987.

17 See GOWER, *Principles of Modern Company Law*, p. 22.

of a real, new, and distinct being, born as a result of an agreement of the will of each of its members. Bhalla states:

The personification of non-human entities and group personality does not imply a total identification between such entities and the legal personality of human beings. Such a personification only means that for certain legal purposes the legal system treats the entity as if it possesses a legal personality like [a] human legal personality. This is a legal fiction. Common sense and law recognises this fiction and its limitations. For example, the state is treated as a legal person capable of suing and being sued in a court of law. No one believes or thinks that the state is a human person. It can only act through human beings. It is created by law as a legal person. Similarly, other incorporated bodies are created by law to serve economic purposes in the life of the community. They are regarded as having [a] life of their own, different from their members who constitute the corporation. They act through human beings as their agents.¹⁸

The concept of 'fiction' is not always welcomed by jurists and, when extrapolated to other lay areas, may dangerously lose substance. Ihering, for example, called fictions the 'white lies of the law'.¹⁹ Bentham was also unrelenting in his attacks. He detected everywhere the pestilent breath of fiction: 'In English law, fiction is syphilis, which runs in every vein, and carries into every part of the system the principle of rottenness'.²⁰ He asks himself: 'Fiction of use to justice? Exactly as swindling is to trade'²¹ – 'the most pernicious and basest sort of lying'.²²

Blackstone, however, sees 'fiction' as highly beneficial and useful in the search for justice and qualifies it as a metaphorical way of expressing the truth. In his *Commentaries on the Laws of England*, he refers to the corporation as an 'artificial person'.²³ Hobbes, on the contrary, pictures the concept of legal fiction as something we use 'to please and delight ourselves and others by playing with our words, for pleasure or ornament, innocently'.²⁴ Others go further to qualify fictions as a way the jurist has

18 R. S. BHALLA, *Concepts of Jurisprudence*, Nairobi: Nairobi University Press, 1990, p. 26.

19 Rudolph von IHERING, *Geist des Römischen Rechts auf den verschiedenen Stufen seiner Entwicklung*, 6th Ed., Vol. III, Leipzig: Breitkopf und Härtel, 1924, p. 305.

20 Jeremy BENTHAM, *The Works of Jeremy Bentham*, ed. John BOWRING, Vol. I, Edinburgh: W. Tait, 1843, p. 235.

21 *Ibid.*, p. 283.

22 *Ibid.*, p. 582.

23 William BLACKSTONE, *Commentaries on the Laws of England*, Oxford: Clarendon Press, 1765; reprinted by Dawsons of Pall Mall, London, 1966, Vol. III, p. 43.

24 Thomas HOBBS, *Leviathan*, ed. Michael OAKESHOTT, with an introduction by Richard S. PETERS, New York: Collier Books, 1962, Chap. IV.

of amusing himself.²⁵ Gierke, who goes on to classify corporations as legal fictions, writes:

Besides men or 'natural persons' the law knows as 'subjects' of proprietary rights certain fictitious, artificial or juristic persons, and as one species of this class it knows the corporation. We must carefully sunder this ideal person from those natural persons who are called its members.²⁶

To Gierke's view, Salmond adds: 'Ten men do not become in fact one person because they associate themselves together for one end any more than two horses become one animal when they draw the same cart.'²⁷ Furthermore, Kelsen qualifies as useless the distinction jurists have attempted to make between persons understood as 'legal fictions' and persons in a 'real' sense. He makes an analytical and purely formal approach to the concept of legal personality by arguing that

law does not deal with human beings as such but only with a certain part of human conduct to which it relates rights and obligations. The distinction between human beings and juristic persons is therefore meaningless. It deals with human acts but only with those acts to which it attaches certain meaning, that is, to which it gives certain significance. These acts are norms. Law is a science of norms; everything in law is reduced to norms. Legal personality is, therefore, a norm, it is a complex of rights and duties.²⁸

Kelsen's approach is eminently pragmatic and accommodative. It does not attempt to unfold the true nature of the firm and the reality of its legal personality. Kelsen, following Kant,²⁹ would always look at reality simply from an eclectic posture, giving different answers to the same reality without committing himself to believe any of them. Geldart, on the other hand, makes an effort to provide a satisfactory answer. Although

25 TOURTOULON and FULLER, for example.

26 OTTO GIERKE, *Political Theories of the Middle Ages*, trans. Frederick William MAITLAND, Cambridge: Cambridge University Press, 1930, p. xx; cited by BHALLA, *Concepts of Jurisprudence*, p. 46.

27 J. W. SALMOND, *Jurisprudence*, London: Sweet & Maxwell, 1966, p. 350; cited by BHALLA, *Concepts of Jurisprudence*, p. 47.

28 HANS KELSEN, *General Theory of Law and State*, trans. A. WEDBERG, New York: Russel & Russel, 1961, pp. 93–109; cited by BHALLA, *Concepts of Jurisprudence*, p. 50.

29 In Kant's words: 'This distinction shows itself in a different manner.... Some [students] who are pre-eminently speculative being almost averse to heterogeneousness, and always intent on unity of genera; while others, pre-eminently empirical, are constantly striving to divide nature into so much variety that one may lose almost all hope of being able to judge its phenomena according to general principles. In this manner one philosopher is influenced more by the interest of diversity (according to the principle of specification), another by the interest of unity (according to the principle of aggregation). Each believes that he has derived his judgment from his insight into the object, and yet finds it entirely on the greater or smaller attachment to one of two principles, neither of which rests on objective grounds, but only on an interest of reason' (Immanuel KANT, *The Critique of Pure Reason*, trans. F. Max MÜLLER, London: Macmillan, 1881, pp. 561–62 & 571–72).

he does not reach the end of the race, he rejects the idea of fiction as follows:

If corporate bodies are really like individuals the bearers of legal rights and duties, they must have something in common which qualifies them to be such; and if that is not personality, we may fairly ask to be told what it is. Or if the rights and duties attributed to them are not really theirs, we may again fairly ask to be told whose they are; to speak of fictitious persons is simply to refuse to give an answer to the problem.³⁰

1.3. HOW REAL IS THE CORPORATION?

Relation is one of the accidents that affect the substance intrinsically. Relation is a reality to be considered as an extrinsic accident, which in view of its terminus determines the substance with reference to others.³¹ Relation, due to its accidental nature, cannot subsist on its own, but in 'another'. This 'another' we call a 'substance'. In a corporation, a series of relations has been established and they are recognised, fostered, and protected by law. These relations that unite the members or owners to the corporation, the corporation to its managers, the managers to the corporation's members or owners, and these all to third parties, subsist in 'something or another'. That 'something or another' is the corporation itself, a real metaphysical being, expressed in the reality of its relations. The corporation has a different nature from those who gave birth to it and from those who manage it. This being, real as it is, is protected by the law. The law gives it the most appropriate status to describe the reality before our eyes. This protection or status granted by the law is what is known as 'legal personality'.

The legal personality of a corporate body, therefore, is not a fiction, nor is it created by any external power. It is as real as the legal personality of the human being³² and exists only where a collectivity has a social value by virtue of pursuing an interest worthy of legal protection. The relation established between the parties forming a corporation has a real existence and, insofar as it is a subject of rights and duties, we may view it as a legal being, a subject of law.

30 W. M. GELDART, 'Legal Personality', *Law Quarterly Review* 22 (1911), p. 97; cited by BHALLA, *Concepts of Jurisprudence*, p. 19.

31 Tomás ALVIRA, Luis CLAVELL and Tomás MELENDO, *Metaphysics*, trans. L. SUPAN, Manila: Sinag-tala, 1991, pp. 61 ff.

32 F. HALLIS, *Corporate Personality*, London: Oxford University Press, 1930, p. xxiv; cited by BHALLA, *Concepts of Jurisprudence*, p. 42. HALLIS rejects the view of fiction on the wrong grounds, however, for he continues: 'But this does not mean that it is a *de facto* reality patent to our simple observation. Such a view is forced to maintain the extravagant notion of a collective will and consciousness.'

1.4. RECOGNITION OF A METAPHYSICAL REALITY BY THE LEGAL SYSTEM

Article 5 of the 1956 'Draft Convention Concerning Recognition of the Legal Personality of Foreign Companies, Association and Foundations', signed in The Hague, states that

recognition of legal personality implies the capacity which is attached thereto by the law under which it has been acquired Personality shall in any case include the capacity to proceed in court whether as plaintiff or defendant, in accordance with the laws of the territory.³³

Along the same lines, the 1986 'European Convention on the Recognition of the Legal Personality of International Non-Governmental Organizations' established, in Article 2.1, the legal personality and capacity of an NGO in any of the states party to the convention in which it has its statutory office. And, in Article 3, it stated that 'proof of acquisition of legal personality and capacity shall be furnished by presenting the NGO's memorandum and articles of association or other basic constitutional instruments'.³⁴

These conventions have simply sought to give legal relevance and eventual protection to an existing reality: the firm or corporation – a legal person distinct from its members.³⁵ This attribute makes the corporation capable of enjoying rights and of being subject to duties that are not the same as those enjoyed or borne by its members,³⁶ as the House of Lords rightly held when it reversed the decision made by the English Court of Appeal in *Salomon v. Salomon*. The House held that the company had been validly formed and, hence, the business belonged to the company and not to Mr. Salomon, who was only the company's agent. As Lord Halsbury stated:

Either the limited company was a legal entity or it was not. If it was, the business belonged to it and not to Mr Salomon. If it was not, there was no person and no thing to be an agent at all; and it is impossible to say at the same time that there is a company and there is not.³⁷

33 'Draft Convention Concerning Recognition of the Legal Personality of Foreign Companies, Associations and Foundations' (The Hague, 1956), Art. 2.

34 'European Convention on the Recognition of the Legal Personality of International Non-Governmental Organizations' (Strasbourg, 1986), Art. 3.

35 Also Resolution 4/2002 taken at the 70th Conference of the International Law Association held in New Delhi, 2-6 April 2002 deals with the principles of jurisdiction over corporations. No. 1.1 of the Resolution somehow defines, though scarcely, corporations as 'entities that have the capacity to sue and be sued in their own names....' Re 4/2002 (70th Conference of the International Law Association), New Delhi, 4-2002.

36 See GOWER, *Principles of Modern Company Law*, 85.

37 *Salomon v. Salomon & Co.* (1897) A.C. 22, H.L. at 31.

And Lord Macnaghten added:

The company is . . . a different person altogether from the subscribers . . . ; and though it may be that after incorporation the business is precisely the same as it was before, and the same persons are managers, and the same hands receive the profits, the company is not in law an agent of the subscriber or trustee for them. Nor are the subscribers, as members, liable in any shape or form, except to the extent and in the manner provided by the Act.³⁸

The rule in *Salomon v. Salomon* has been applied over and over again. In 1916, Lord Parker of Waddington, in *Daimler Co. v. Continental Tyre and Rubber Co.*, stated, partially citing *Salomon v. Salomon*:

No one can question that a corporation is a legal person distinct from its corporators; . . . it seems to me impossible to dispute that once the company is legally incorporated it must be treated like any other independent person with its rights and liabilities appropriate to itself, and that the motives of those who took part in the formation of the company are absolutely irrelevant in discussing what those rights and liabilities are.³⁹

Already before Salomon's case, Palmer tells us, Lord Lindsay had stated in *Farrar v. Farrars Ltd.*:

A sale by a person to a corporation of which he is a member is not, either in form or in substance, a sale by a person to himself. To hold that it is would be to ignore the principle which lies at the root of the legal idea of a corporate body and that idea is that the corporate body is distinct from the persons composing it. A sale by a member of the corporation to the corporation itself is in every sense a sale valid in equity as well as in law.⁴⁰

Therefore, the corporation, in the eyes of the law, is a person distinct from its members.⁴¹ It is, we may conclude, a metaphysical entity with legal recognition. Furthermore, this person will indeed be granted a nationality determined by the law of the country in which it is incorporated and a domicile determined by the situation of its registered office.⁴²

Having concluded the reality of the legal person, it is a matter of consequence to scrutinise and examine the manager's duties and his responsibility towards the corporation.

38 *Ibid.*

39 *Daimler Company, Limited Appellants; v. Continental Tyre and Rubber Company (Great Britain), Limited Respondents*, House of Lords, 1916, at <http://www.parliament.the-stationery-office.co.uk>.

40 *Farrar v. Farrars*, 1888, 40 Ch D 395; cited by PALMER, *Company Law*, 24th Ed., Vol. I, p. 202.

41 This has been supported by jurisprudence in numerous cases, e.g. *E.B.M. Co. v. Dominion Bank*; *Henry Broune & Son v. Smith*; *Lep Air Services v. Rollowswin Investments*; *Sarna v. Adair*; *Davidson & Syme v. Kaye and Others*; *Bluebell Apparel v. Dickinson*; *Rumasa S.A. v. Multinvest (UK)*; *Roll-Royce plc v. Doughty*.

42 It will also have a residence, although this term is used mainly in matters related to taxation.

2. THE MANAGER'S DUTIES

The nature of the legal duties owed by managers to their corporations and to third parties depends upon the nature of the relationship.⁴³ Managers may be, in the eyes of the law, either agents of the corporation for which they act or, in some sense and to some extent, trustees, or are in the position of trustees and may be liable for breach of trust. This depends upon the nature of the act performed and the relation created by the act. Thus, the words of Lord Selbourne in *G. E. Ry v. Turner*: 'The directors are the mere trustees or agents of the Company – trustees of the company's money and property – agents in the transactions which they enter into on behalf of the company'.⁴⁴ This possible dual liability has developed into two different legal theories, which are briefly exposed in the following paragraphs.

2.1. MANAGERS AS ORGANS

In *Leonard's Carrying Co. Ltd v. Asiatic Petroleum Co. Ltd*, Haldane stated:

A corporation . . . has no mind or will of its own. . . . Its active and directing will must be sought in the person of somebody who for some purposes may be called an agent but who is really the directing mind and will of the corporation, the very ego and centre of the personality of the corporation. . . . If Mr Leonard was the directing mind of the company, then his action . . . was the action of the company itself.⁴⁵

In the same judgement, Haldane emphasised that the fault should be 'of somebody who is not merely an agent or a servant for whom the company is liable upon the footing *respondeat superior*, but somebody for whom the company is liable because his action is the very action of the company itself'.⁴⁶

Following Haldane's thought, Lord Denning asserted in *Bolton (Engineering) Co. Ltd v. Graham & Sons*:

A company in many ways [can] be likened to a human body Some of the people in the company are mere servants and agents who are nothing more than hands . . . and cannot be said to represent the mind and will. Others are directors and managers who represent the directing mind and will of the company and control what it does. The state of mind of these

43 See PALMER, *Company Law*, 24th Ed., Vol. I, p. 922.

44 *G. E. Ry v. Turner* (1872) L.R. 8 Ch. 149, 152.

45 *Leonard's Carrying Co. Ltd v. Asiatic Petroleum Co. Ltd* (1915) A.C. 705 H.L.; cited by GOWER, *Principles of Modern Company Law*, p. 193.

46 *Ibid.*

managers is the state of mind of the company and is treated by the law as such.⁴⁷

Although the language used in some judgements tends to imply that the courts regard some of these instances as examples of the '*lifting of the veil of incorporation*', in Gower's opinion, they are instead applications of the organic theory, involving no disregard of corporate entity.⁴⁸

In the sphere of criminal law, the organic theory has had a major impact, except in what regards *actus reus* crimes.⁴⁹ However, the theory must not be taken to absurd extremes; for example, concerning the internal relationship between the company and its organs, dishonest acts directed against the corporation by its organs are not attributed to the corporation.⁵⁰

Modern jurisprudence seems to be moving in this direction by recognising that the board of directors is not a mere agent of the corporation, but is an organic part of it, so that third parties can hold acts of the board as acts of the corporation itself.⁵¹ In *Standard Chartered Bank v. Pakistan National Shipping Corporation*, following *R. v. ICR Haulage Ltd.*, it was stated that both the managing director and, through him, the company were convicted of conspiracy to defraud. His acts 'were the acts of the company and the fraud of that person was the fraud of the company'.⁵²

2.2. MANAGERS AS AGENTS

As we have stated above, managers are, in the eyes of the law, agents of the corporation for which they act in the transactions they enter into on behalf of the corporation, and the general principles of the law of principal and agent regulate in many ways the relationship of the corporation and its managers. In *Ferguson v. Wilson*, Cairns asserted that the case of managers is the case merely of 'principal and agent. Wherever an agent is liable, those directors would be liable; where the liability would attach to the principal, and the principal only, the liability is the liability of the company'.⁵³

47 *Bolton (Engineering) Co. Ltd v. Graham & Sons*, (1957) 1 Q.B. 159.

48 GOWER, *Principles of Modern Company Law*, p. 195.

49 These are crimes that can only be committed by a physical person, e.g. adultery, murder, which carry a mandatory period of imprisonment, etc.

50 GOWER, *Principles of Modern Company Law*, p. 197.

51 *Ibid.*

52 See *Standard Chartered Bank v. Pakistan National Shipping Corporation*, at <http://www.parliament.the-stationery-office.co.uk>.

53 *Ferguson v. Wilson*; cited by PALMER, *Company Law*, p. 922.

As an agent, the manager stands in a fiduciary relationship to the company as the principal. This fiduciary relationship – according to Palmer – imposes upon managers duties of *loyalty and good faith* towards the *corporation*. Managers, also by virtue of their relationship with the corporation, are under the duty of care, diligence and skill. The duties imposed by the managers' fiduciary relationship and the duties of care, diligence and skill, which evolve from the nature of their job, are not contradictory but complementary. Therefore, as jurisprudence has clearly established, under these duties:

1. The manager must act honestly.⁵⁴
2. The manager must exercise some degree of both skill and diligence. But this degree of skill shall not be greater than may reasonably be expected from a person of his knowledge and experience.⁵⁵
3. Managers are not expected to be experts unless appointed as such.
4. A manager is not liable for errors of judgment when exercising reasonable care and diligence.⁵⁶
5. A manager may reasonably rely on co-managers and other officers of the company.⁵⁷
6. A manager may be liable for negligence by non-attendance at board meetings.⁵⁸
7. Managers are under a duty to act *bona fide* in the best interests of the corporation. In this case, the expression 'corporation' does not mean the sectional interests of some or most of the current members, but both present and future members. Therefore, managers should balance long-term views against short-term interests of present members. In this regard, Judge Megarry held in *Gaiman v. National Association for Mental Health*: 'The interests of some particular section or sections of the company cannot be equated with those of the company, and I would accept the interests of both present and future members of the company, as a whole, as being a helpful expression of a human equivalent.'⁵⁹

54 *Re City Equitable Fire Insurance Co.*

55 *Ibid.*

56 See *Re Brazilian Rubber Plantations & Estates Ltd* (1911) 1 Ch. 425, 437.

57 *Dovey v. Cory* (1901) A.C. 477.

58 *Charitable Corporations v. Sulton* (1742) 2 ATK, 400, 405.

59 *Gaiman v. National Association for Mental Health* (1971) Ch. 317, 330; cited by PALMER, *Company Law*, pp. 63–64.

Managers are also required under general principles of law⁶⁰ to have regard for the interests of the corporation's employees in general, as well as the interests of its members. As occurs in any other fiduciary relationship, managers are not required to put themselves in a position where there is a conflict, even remote, between their personal interests and their duty to the corporation. Should such a situation arise, their duty is to protect and give priority to the corporation's interest.

3. RESPONSIBILITY IN CORPORATE RELATIONSHIPS

The object of the relation must be stated in the memorandum of association of the proposed company. This is done through what is known as 'the object clause'. According to Palmer, this clause has a twofold function:

- A. It affirmatively determines the purposes for which the company is created; for the stated objects confer on the company the capacity . . . [required] to the attainment of those purposes.
- B. It limits and restricts the capacity of the company to act, save so far as its capacity is extended by statute.⁶¹

The object is to be stated with some degree of particularity and must not include anything that contravenes the law.⁶² The reason for the particularisation of the object is to determine the liability of the corporation's acts and to protect the corporation itself from acts of its agents that do not conform to the initial agreement of wills that gave birth to the corporation. Thus, a corporation cannot act as a legal person outside the purpose defined in the objects clause of the memorandum of association or given to it by statute. Any such act is qualified as *ultra vires* (beyond the legal powers), which essentially means an act carried out without the legal capacity to do so. These acts are altogether void in their inception and incapable of ratification, even by the unanimous consent of the shareholders.⁶³ If the corporation has acted *ultra vires*, the only mechanism for redress in common law is by way of compensation,

60 In the United Kingdom, this principle is enshrined under Section 309 of the Companies Act.

61 PALMER, *Company Law*, p. 117.

62 As L. J. BUCKLEY wrote in *Re Horsley & Weight Ltd*: 'A company has no capacity to pursue objects outside those stated. It does not follow, however, that any act which is not expressly authorised by the memorandum is *ultra vires* the company. Anything reasonably incidental to the attainment or pursuit of any of the express objects of the company will, unless expressly prohibited, be within implied powers of the company.'

63 See *Ashbury Railway Carriage Co. v. Riche* (1875) L.R. 7 HL 653. See also *Dalling v. Brouning* (1944) 60 Sheriff Court Reports 143; cited by PALMER, *Company Law*, p. 126.

provided that the third party acted in good faith and the transaction in question was decided on by the directors.⁶⁴

The rule established in the *Ashbury* case is that the acts of a company must be performed in accordance with its authorised object. This was further confirmed in 1887 by *Trevor v. Whitworth*,⁶⁵ where Lord Herschell dictated that ‘a company cannot employ its funds for the purpose of any transactions which do not come within the object specified in the memorandum’.⁶⁶ Conversely, Sir Francis Palmer concludes that the shareholders cannot by agreement so restrict a company’s object as to render *ultra vires* a transaction that is authorised by its objects clause.⁶⁷

In *ultra vires* acts, the liability falls on the party making the decision, usually the directors or a director. If a director enters into an *ultra vires* transaction, he will be liable for grave dereliction of duty. It is his duty to acquaint himself fully with the corporation’s memorandum and articles, in order to ensure the corporation’s capacity to enter into a specific transaction. If, as a consequence of such an act or omission, the company were to suffer a loss, the director who acted on behalf of the corporation shall be fully liable *to the corporation*. A clause in the articles or a contract is void, if it attempts to exempt a director, other officer, or auditor from liability for negligence, default, breach of duty, or breach of trust.⁶⁸ If the director misrepresented to a third party that the contemplated transaction was within the capacity of the corporation, he may be sued by this third party in tort for deceit, if the act was fraudulent and deliberate, or he may be held liable under the Hedley Byrne principle,⁶⁹ if the misrepresentation was negligent. Moreover, those acts of a director that, although falling within the corporation’s object, have been performed outside the authority of its directors, are qualified as *intra vires*.⁷⁰ In this

64 Section 35(2) of the 1985 Companies Act provides that ‘a party to a transaction so decided on is not bound to enquire as to the capacity of the company to enter into it or as to any such limitation on the powers of the directors, and is presumed to have acted in good faith unless the contrary is proved’.

65 *Trevor v. Whitworth* (1887) 12 App. Cas. 409, 414, 415; cited by PALMER, *Company Law*, p. 131.

66 *Ibid.*

67 *Scotmotors v. Dundee Petrosea Ltd.* (1982) S.I.T. 445; cited by PALMER, *Company Law*, p. 131.

68 PALMER, *Company Law*, p. 139.

69 This principle was stated by Lord Denning in *Esso Petroleum Co. Ltd v. Mardon* in the following terms: ‘If a man, who has or professes to have special knowledge or skill, makes a representation by virtue thereof to another – be it advice, information or opinion – with the intention of inducing him to enter into a contract with him, he is under a duty to use reasonable care to see that the representation is correct, and that the advice, information or opinion is reliable. If he negligently gives unsound advice or misleading information or expresses an erroneous opinion, and thereby induces the other side to enter into a contract with him, he is liable.’ See PALMER, *Company Law*, p. 139.

70 See examples given by PALMER, *Company Law*, p. 131.

case, the corporation possesses a contracting capacity, but the director or directors have abused this power to act on behalf of the corporation.⁷¹ If the corporation ratifies such an act, logically, the corporation will be liable under the general rule of the principle of agency,⁷² provided that the third party acted in good faith. Hence, a corporation, Palmer tells us, may be held liable for negligence, trespass, malicious persecution, libel, assault and battery, nuisance, fraud, or conspiracy. It may be fined for breach of duty imposed by the law for acts of its agents and may be bound by acquiescence. For, although it does not have eyes and cannot see, it has agents who can see.⁷³

Palmer adds that the acts of the directors are limited in two ways:

First, being agents of the company, the directors can do nothing which the company itself, their principal, cannot do under its memorandum of association, and any purported act by them which is *ultra vires* the company will be void and of no effect, except to the extent that the transaction may be enforced by an outsider acting in good faith Secondly, when acting within the powers of the company, the directors are limited to the powers which the company has delegated to them. If they act outside their own powers but *intra vires* the company, the latter may ratify their acts in a general meeting. If, however, acts by directors in excess of their authority are not ratified by the company, they may be liable to those with whom they deal on the footing that they are taken to warrant their authority Further, directors who act in excess of the powers conferred upon them are in breach of their duties to the company.⁷⁴

Some authors have recommended the fictitious nature of the legal personality of corporations based on the principle of lifting or piercing the veil of incorporation. In our view, this posture is inaccurate, since it overlooks the fact that any legal relation may be truly fictitious when it is contemptuously based upon unreal situations. Thus, in law we speak of an invalid or an illegal act and this is somewhat the case when the corporate veil is lifted. The genuine agreement of wills required for the formation of a relationship leading to the registration of a corporation was missing and, therefore, the corporation, even if registered, lacked that essential

71 See PALMER, *Company Law*, p. 120.

72 'This liability is derived from the ordinary law of principal and agent, and it makes no difference whether the agent's wrongful act or default takes the form of malice, negligence, nuisance or fraud. These objects of the company can only be accomplished by the agency of individuals; and there is no doubt that if the agents employed conduct themselves fraudulently, so that if they had been acting for private employers, the persons for whom they were acting would have been affected by their fraud, the same principles must prevail when the principal under whom the agent acts is a corporation' (*Ranger v. G. W. Ry* (1854) 5 HLC 72, 86; cited by PALMER, *Company Law*, p. 140).

73 See PALMER, *Company Law*, p. 141.

74 PALMER, *Company Law*, pp. 63-67.

element – the reality of the relation – by virtue of which it should have acquired metaphysical existence. This is the case when, for example, a corporation has been registered as a façade to evade principles of equity, taxes, wrongful trading, or waiver liability.⁷⁵ Courts then proceed to pierce the veil of incorporation, in order to enable themselves to administer justice and to decide individual cases in accordance with equitable principles. In cases where the veil is lifted, the law either goes behind the corporation's personality to the individual members or ignores the separate personality of each company in favour of the economic entity constituted by a group of associated companies.⁷⁶

Thus, in 1916, the House of Lords decided in *Daimler Co. v. Continental Tyre and Rubber Co.* to lift the veil of incorporation of a company registered in England but composed of German directors,⁷⁷ who were at that time enemies of the Crown. They held that this company, although registered in England, was to be regarded as an enemy, since it acted through its agents, who were German.⁷⁸ Therefore, lifting the corporate veil does not prove wrong the reality of the legal personality of the corporation. It provides the courts with the necessary legal tools to administer justice and render null and void a corporate façade constructed upon fraudulent intentions. This is the reason that 'only in exceptional circumstances does the law allow the creditor of the company to pierce the veil of incorporation and fix the shareholder with personal liability'.⁷⁹

4. MISAPPLICATION OF THE CONCEPT OF AGENCY

The legal personality of the corporation is a metaphysical reality protected by the law. It is the only principal in the 'corporation-manager' agency relationship. The manager owes his loyalty to it. Financial management

75 Logically, it also applies in the case of a fraudulent purpose.

76 See GOWER, *Principles of Modern Company Law*, p. 108.

77 The only English subject was the Secretary to the Company.

78 The House held: '(1.) A company incorporated in the United Kingdom is a legal entity... It is not a natural person with mind or conscience. To use the language of Buckley L.J., 'it can be neither loyal nor disloyal. It can be neither friend nor enemy.' (2.) Such a company can only act through agents properly authorized, and so long as it is carrying on business in this country through agents so authorized and residing in this or a friendly country it is, prima facie, to be regarded as a friend, and all His Majesty's lieges may deal with it as such. (3.) Such a company may, however, assume an enemy character. This will be the case if its agents or the persons in de facto control of its affairs, whether authorized or not, are resident in an enemy country, or, wherever resident, are adhering to the enemy or taking instructions from or acting under the control of enemies. A person knowingly dealing with the company in such a case is trading with the enemy' (*Daimler Company, Limited Appellants; v. Continental Tyre and Rubber Company [Great Britain], Limited Respondents*, House of Lords, 1916, at <http://www.parliament.the-stationery-office.co.uk>, cited above).

79 *Standard Chartered Bank v. Pakistan National Shipping Corporation*, at <http://www.parliament.the-stationery-office.co.uk>.

theory has, therefore, been misled by a fallacy repeatedly paraphrased. A Cambridge University research paper on economic concepts for the social sciences puts it in the following terms:

In law an 'agent' is someone who acts for another, called the 'principal'. In this relationship the agent is required to act in a fiduciary and responsible fashion – acting in the interests of the principal. We could say a 'contract' exists between the managers and the owners. When we apply this legal relationship to managers, the manager is legally a paid agent of the owners or stockholders, the principals.⁸⁰

This approach is inaccurate. If guided by the same logic, we could conclude that the President of the Republic of Kenya is our agent. We have elected him; we – through our taxes – are paying his salary. He is our 'paid agent' and, therefore, is not liable in any way. Any wrong or even crime committed by him in the exercise of his presidential duties is not imputable upon him, since this is the legal consequence of an agency relationship. Moreover, this approach would necessarily place the responsibility of the manager's acts on the shareholders, which is the case neither *de iure* nor *de facto*. Such a conclusion could only be reached by those who lack a proper understanding of the implications of the legal personality of the corporation and its role as the only principal in this case.

The consequences of the wrong application of the legal principle of agency to financial management theory is bound to create a conflict of interests⁸¹ between a supposed 'principal' (the owner), who is not liable, and a purported 'agent' (the manager), who is not answerable to his true and only principal (the corporation).

The use of the word agency in financial management has developed 'agency theory'. This theory argues that

in agency terms, the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to the residual claimants, the owners, fall below what they would be if the principals, the owners, exercised direct control of the corporation.⁸²

The misapplication of the concept of agency to a different reality is what triggers the moral hazard, which – for some authors⁸³ – supposedly

80 'Economic Concepts for the Social Sciences' (research paper), at www.assets.cambridge.org.

81 Again, these conflicts are misunderstood as 'existing when the stakeholders [*sic*] have selfish motives and do not always act to 'maximize' firm value.' See Jamal Munshi, 'Theory of the Firm', *Journal of Financial Economics*, III (1976), pp. 305–60.

82 Lex DONALDSON and James H. DAVIS, 'Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns', *Australian Journal of Management* 16 (1991), p. 50.

83 For example DONALDSON and DAVIS, cited above.

arises through the asymmetry in information available to the manager and the shareholder. Agency theory seeks to minimise this asymmetry by monitoring the actions of the 'agent' and/or by rewarding the agent for meeting his responsibilities and acting in the interests of the owners, without taking into consideration the long-term interests of the corporation.

Agency theory attempts, by means of the concept of 'moral hazard', to reduce agency loss by aligning the financial interests of managers with those of shareholders. This alignment basically consists in maximising the manager's personal economic gain, seeking to attain rewards and avoid punishment, especially financial ones.⁸⁴ Such an approach is bound to fail, however, for it fosters an individualistic and self-interested search for personal wealth, which, unless restrained by virtue and shaped by the quest for the common good, will make the 'agency problem' increasingly and excessively expensive.

Donaldson and Davis make an attempt to align managers and shareholders' interests in 'stewardship theory'.⁸⁵ The manager, according to this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Structures, the authors defend, 'will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorise and empower senior management'.⁸⁶

In spite of some ingenious attempts to resolve the agency problem, the core of the matter continues to be obscured. The struggle to resolve moral hazards continues to be focused on what appear to be mistaken ways, built upon faulty philosophical and, therefore, ethical foundations, whether by vesting greater decision-making power in a single individual,⁸⁷ by monitoring managers' behaviour,⁸⁸ or by paying rewards for meeting responsibilities and expectations.⁸⁹ These mechanisms, even if appropriate

84 *Ibid.*, p. 51.

85 Stewardship theory argues that shareholders' interests are maximised by shared incumbency of roles of 'the board chair' and 'CEO'. Results of empirical tests seem to provide some support for this theory.

86 *Ibid.*, p. 52.

87 As stewardship theory suggests.

88 For example, through unannounced audits, as suggested by 'Theory of the Firm: Governance, Residual Claims and Organizational Forms', Harvard NOM Working Paper No. 00-10, Harvard University Press, December 2000.

89 However, this mechanism has recently been criticised and examined with suspicion after Enron's failure of corporate governance. An interesting article on the subject has been written by Woodrow W. CLARK and Istemi DEMIRAG, 'Enron: The Failure of Corporate Governance', *The Journal of Corporate Citizenship* 8 (22 December 2002).

as checks and balances, are insufficient, for they ignore the root of the matter: *the explanation of why a manager should behave ethically.*

In our view, this insufficiency rests on two major objections to the modern financial management approach. On the one hand, there is the relativistic view of an ethics model based on the wrong philosophical foundation, where ethics is defined simplistically as the standards of conduct or moral judgement.⁹⁰ In such a case, the standards are not guided by truth, but simply by the 'negative publicity resulting from ethical violations, which often leads to negative impacts on the firm'.⁹¹ They are also guided by mere financial interest, as Noreen puts it: 'If enough people adhere to the ethical code . . . resources can be diverted away from monitoring, enforcing and protecting into more productive uses.'⁹² On the other hand, there is the misapplication of the legal concept of 'agency' to a different reality, as in the case of the manager-corporation-shareholder relationship.

5. CONCLUSIONS

Our conclusions may be summarised as follows:

1. Agency is a relationship that arises when one person, called the *principal*, authorises another, called the *agent*, to act on his behalf, and the other agrees to do so. It enables the agent to make a contract between his principal and a third party. And, by virtue of the agent acting on the principal's behalf, the burden of liability rests on the principal. This, coupled with the maxim that an '*agent must intend to act on behalf of his principal*', distinguishes agency from other analogous relationships.
2. The corporation or firm is the nexus or node of relationships (shareholder-shareholder, shareholder-manager, manager-client, shareholder-manager, etc.). These 'relations' have a being of their own, thanks to which they are susceptible to legal treatment. They have a real metaphysical existence recognised by law in the form of a 'legal person', and no one can question that a corporation is a legal person distinct from its incorporators. Therefore, in the eyes of the law, the corporation is a person distinct from its members.
3. The directors are mere trustees or agents of the company – trustees of the company's money and property – agents in the transactions that they enter into on behalf of the company.

90 University of Colorado at Colorado Springs Research Slides, at <http://www.uccs.edu>.

91 *Ibid.*

92 Eric W. NOREEN; cited by J. L. LUFT, 'Fairness, Ethics and the Effect of Management Accounting on Transaction Costs', *Journal of Management Accounting* 3 (2002).

Therefore, since the corporation is a real entity, a legal person, it stands as a barrier or partition in the shareholder-manager relationship, so as to be considered the only principal and person imputable for the acts of the manager as its agent.

4. Managers are under a duty to act *bona fide* in the best interests of the corporation. In this case, the expression 'corporation' does not mean the sectional interests of some or most of the current members, but both present and future members. Therefore, managers should balance long-term views against the short-term interests of present members.
5. The object of the corporation is to be stated with some degree of particularity and must not include anything that contravenes the law. The reason for the particularisation of the object is to determine the liability of the corporation's acts and to protect the corporation itself from acts of its agents that do not conform to the initial agreement of wills that gave birth to the corporation. Acts performed outside the object may be *ultra vires* and may be imputable on the manager acting as the agent outside jurisdiction. Managers who act in excess of the powers conferred upon them are in breach of their duties to the company.
6. The consequences of the wrong application of the legal principle of agency to financial management theory has created a conflict of interests between a supposed 'principal' (the owner or shareholder), who is not liable, and a purported 'agent' (the manager), who can only be answerable to his true and only principal (the corporation).
7. The agency problem cannot be resolved as long as it is built on insufficient and weak theoretical pillars. This insufficiency rests on two major objections to the current financial management approach:
 - a. It assumes the relativistic view of an ethics model based on a false philosophical foundation, where ethics is defined simplistically as standards of conduct or moral judgement, with these standards guided simply by the negative publicity resulting from ethical violations, which often leads to negative consequences for the firm and its merely financial interest.
 - b. There is the misapplication of the legal concept of 'agency' to a different reality, as in the case of the relationship manager-corporation-shareholder.

6. TOWARDS THE COMMON GOOD⁹³

Mitchell, in *Corporate Irresponsibility: America's Newest Export*, asserts that American society is 'predisposed to excessive individualism . . . and limits this excess by personal moral framework'.⁹⁴ Corporate managers are driven to abandon their personal frameworks, which are weakened from birth by a utilitarian approach towards ethics, when faced with a shareholder-centred corporation focusing on short-term profit. Mitchell offers graphic examples of managers who check their stock price many times each day. Stock price, Mitchell states, is a bizarre way of running a company. It leads insiders to set aside their own judgment in favour of outsiders, who may be reacting to external factors that have nothing to do with the decisions the corporation needs to make to succeed.⁹⁵

Therefore, there is an urgent need to reflect upon the road that business management theory has followed and to revise concepts that actually have diverted the understanding of management from its moral and ethical foundations. Ethics must act as an ordering function, without which business management cannot contribute towards man's perfection. Man's perfection cannot be achieved by disregarding the natural desire of communicability that every human person possesses, since 'man is naturally a social being'⁹⁶ and man's natural sociability is a necessary condition of one's full realisation as a person.

Thus, an individualistic understanding of business management, even from a corporate point of view, is bound to fail – it is only a matter of time. This failure is also society's failure:

The goodness of any part is considered in comparison with the whole Since then every man is a part of the state, it is impossible that a man be good, unless he be well proportioned to the common good: nor can the whole be well consistent unless its parts be proportionate to it. Consequently, the common good of the state cannot flourish, unless the citizens be virtuous, at least those whose business it is to govern.⁹⁷

93 The common good is the end of each individual member of a community, just as the good of the whole is the end of each part (Thomas Aquinas, *Summa Theologiae*, Pt. II-II, Q. 58, Art. 9).

94 Lawrence MITCHELL, *Corporate Irresponsibility: America's Newest Export*, New Haven: Yale University Press, 2001, p. 47.

95 *Ibid.*, p. 121.

96 Thomas AQUINAS, *Summa Theologiae*, trans. Fathers of the English Dominican Province, 2nd Ed., London: Burns Oates & Washbourne; New York: Benziger Brothers, 1920, Pt. I, Q. 96, Art. 4.

97 *Ibid.*, Pt. I-II, q. 92, Art. 1, ad. 3.

The common good, Ayugi says, is not a mere mathematical addition of the individual goods of the various parts. As Croft observes, 'the common good is not just the collective sum of the individual goods, and thus is not to be thought of in simple mathematical terms',⁹⁸ but 'is rather a distinct – and greater – entity, so that the individual good of the member is achieved through this larger reality'.⁹⁹ To live well as an individual is important, but to live well together is more fundamental. Family and friendship are required for man to live well as a person, since, as noted above, *man is naturally a social being*. This assertion can be qualified, but not quantified, for it is achieved through an unquantifiable truth: *virtue*.

It is helpful to return to the terms of the relationships at the foundation of the corporation, in order to gain a clearer picture of the relationship between the particular good and the common good. When each of the members of the node of relationships is in pursuit of his true good, he contributes to the common good, and vice versa. The interest of some particular section of the firm, if it is truly good, will never jeopardise the true interests of the corporation.

Having stated this, it appears clear to us that profit maximisation, as it is understood by modern financial management theory, does not take into account the true good of the relationships. There is an urgent need to redefine certain concepts. We pose, therefore, a challenge to the experts and to academicians in the business arena: the revision of the redefinition of profit. There is an essential and unquantifiable element yet to be included in a comprehensive definition of profit. This element or elements can only be qualified. Thus, profit may be defined in terms of more than wealth. 'Profit' or 'quality profit', as it may be called, may mean wealth, health,¹⁰⁰ and care.¹⁰¹ To overlook this key or imperative dimension of the person is to reduce business management theory to a more or less complicated mathematical problem. It is to reduce the human person to being content with the biggest hamburger, when what

98 Richard A. CROFTS, 'The Common Good in the Political Theory of Thomas Aquinas', *The Thomist* 37 (1973), p. 164.

99 Thomas AYUGI, 'Political Order, Complementarity and Human Equality: A Thomistic Defence of Their Compatibility', Doctoral Thesis, Pontifical University of the Holy Cross, Rome, 2002, p. 84.

100 An important aspect of profit is its utilisation. It is contradictory to maximise profit if it cannot be utilised, and for this a person needs health. Therefore, it makes no sense to lose one's health to attain wealth, when one has necessarily to spend the wealth in a possibly fruitless attempt to regain one's health.

101 Family and friendships are a very important aspect of any human being who, as a naturally social being, needs the care and love of friends and family. Again, it would make no sense to lose that care which cannot not be attained when wealth is placed as the only objective all our concerns.

we really want is the best, which is not necessarily the biggest, but the tastiest and juiciest. Personally, we prefer the latter.

It must be understood that it is not a question of achieving the common good in order to achieve one's particular good, or his ultimate end. Rather, it is precisely when seeking the good of others that one achieves the virtues that lead the person to his own fulfilment, thus achieving one's ultimate end.¹⁰²

In this search for the common good, specifically applied to financial management theory, managers – as has been stated above – are under the duty to act *bona fide* in the best interests of the corporation, their only principal. In this case, the expression 'corporation' does not mean the sectional interests of some or most of the current members, but the interests of both present and future members. Therefore, managers should balance long-term views against the short-term interests of present members. This requires a deep capacity for judgment, so as to keep a balance between the interests of shareholders and the interests of other stakeholders, but always seeking virtue in every decision. This is the only way towards the common good and, therefore, the good of all stakeholders and society at large.

It is appropriate to cite again Judge Megarry in *Gaiman v. National Association for Mental Health*:

The interests of some particular section or sections of the company cannot be equated with those of the company, and I would accept the interests of both present and future members of the company, as a whole, as being a helpful expression of a human equivalent.¹⁰³

102 AYUGI, 'Political Order, Complementarity and Human Equality', pp. 84-97.

103 *Gaiman v. National Association for Mental Health* (1971) Ch. 317, 330; cited by PALMER, *Company Law*, pp. 63-64.

FOUNDING AN ETHICAL KENYA: THE ROLE OF THE BUSINESS SECTOR

ANNE WAIGURU¹

Integrity building within nation-states has been identified as paramount in the fight against unethical practices. This function has been perceived as belonging to civil society. It has increasingly been taken up, in both developed and developing countries, by watchdog and non-governmental organisations, sometimes in partnership with governments.

No government or organisation, be it private or public, formal or informal, can prosper without a proper ethical foundation. This must be reflected in its constituents' self-worth, work, and personal relationships, and must flow from the family to the business firm and the community, and eventually to the entire nation. Furthermore, all of our economic, social, cultural and political deficiencies, such as corruption, crime, theft, nepotism, ethnic and gender discrimination, inefficiencies, and mismanagement of resources, whether public or private, or wilful destruction of the same, are indications of an unethical culture.

The need to build higher standards of integrity is particularly important in Kenya as the transition last year gave rise to a new government that is giving national reconstruction renewed emphasis. This new government's main agenda is to revamp the economy by prioritising the fight against corruption. It intends to do so by improving efficiency, curbing wastage and mismanagement of resources and, overall, creating an enabling environment for economic growth. But, is the government solely capable of ridding us of corruption, mismanagement, inefficiency and other unethical practises that are characteristics of our nation, and of doing this for the long term? If not, who are the key players in the ethical field and who should be the stakeholders of an ethical Kenya? Do we as Kenyans have a value system or morals that we ascribe to as a nation? And, most important, what has all this got to do with the objective of business management?

This essay is organised in various sections. The first section looks at the standard definition of a business and its purpose, and introduces the concept of management. The second section takes a closer look at the various objectives of business management. The third section outlines

1 I would like to acknowledge the assistance of M. J. GITAU and Vernon GEWA in the research and proofreading of this essay. The views expressed herein are of the author and not necessarily of the Kenya Leadership Institute.

some ethical theories that form the basis upon which decisions about ethical dilemmas are made. The fourth section reviews at some length the more recent literature on business ethics. Section five illustrates firm behaviour in the context of other actors in society at large. More importantly, this section illustrates the circular flow of values: the interplay between business ethics and societal values. The essay ends with a conclusion, followed by some recommendations as to how the business sector can contribute toward the founding of an ethical Kenya.

1. INTRODUCTION

In addressing the objectives of business management, it is appropriate that we first define the two terms 'business' and 'management' independently.

1.1. WHAT IS BUSINESS?

An average businessman, when asked what a business organisation is, will probably answer that a business is *an organisation that exists to make profit*. The average economist is also likely to give the same answer.

Peter Drucker, one of the most widely read management theorists, thinks otherwise. According to him,² this answer is not only false, but also irrelevant. This is not to say that profit and profitability are unimportant, but rather that profitability is not the purpose of business activity. It is, instead, a limiting factor on it. Profit is, therefore, not the explanation, cause, or rationale of business behaviour and business decisions, but instead the test of their validity. Consequently, he proposes that, to define business, it is imperative that we first define the *purpose* of the business enterprise.

1.2. WHAT THEN IS THE PURPOSE OF THE BUSINESS ENTERPRISE?

Drucker suggests that the purpose 'must lie outside of the business itself. In fact, it must lie in society, since a business enterprise is an organ of society. There is only one valid definition of business purpose: *to create a customer*.'³

A business enterprise can, therefore, be defined as an organisation that exists to create customers. It is the customers who determine what a business is. Therefore, a business firm should exist for its customers. They alone, by being willing to pay for a good or service, can convert economic resources into wealth and goods with utility. The customer,

2 Peter F. DRUCKER, *Peter Drucker on the Profession of Management*, ed. Nan Stone, Boston: Harvard Business School Press, 1998.

3 DRUCKER, *The Practice of Management*, New York: Harper & Row, 1954, p. 37.

therefore, is the foundation of a business, keeps it in existence, and provides employment. From that we can conclude that the customer and the customer's welfare ought to be the foremost concern of any entrepreneur and any business enterprise.

1.3. WHAT IS MANAGEMENT?

Management is a term that has no simple definition. Essentially, it is about achieving organisation goals with and through people. According to Collins and McLaughlin, management is the attainment of organisational goals in an effective and efficient manner through planning, organising, leading, and controlling organisational resources.⁴

The two important ideas in the definition of management are:

1. The four functions of management: planning, organising, leading, and controlling:
 - Planning involves defining goals for future organisational performance and deciding on the tasks and use of resources needed to attain them.
 - Organising involves the assignment of tasks, the grouping of tasks into departments, and the allocation of resources to departments.
 - Leading is the use of influence to motivate employees to achieve organisational goals. It means creating a shared culture and values, communicating goals to employees throughout the organisation, and infusing employees with the desire to perform at a high level. It is under this category that the ethical dimension falls.
 - Controlling means monitoring employees' activities, determining whether the organisation is on target toward its goals, and making corrections as necessary.
2. The attainment of the organisational goals in an effective and efficient manner.

Joan Magretta defines management's real genius as turning complexity and specialisation into performance.⁵ Daft and Marcic define management as an organ of society specifically charged with making resources productive. They see management's business as building organisations that work. Drucker, on the other hand, defines management as a multi-purpose organ that manages a business and manages managers and manages

4 Richard L. DAFT and Dorothy MARCIC, *Understanding Management*, 2nd Ed., New York: Harcourt Brace College Publishers, 1998.

5 Joan MAGRETTA, with the collaboration of Nan STONE, *What Management Is: How It Works and Why It's Everyone's Business*, London: HarperCollinsBusiness, 2002.

workers and work. According to him, if one of these were omitted, we would no longer have management. The other part of the definition of management is the attainment of organisational goals in an *efficient* and *effective* manner. Organisational *efficiency* refers to the amount of resources used to achieve an organisational goal, while organisational *effectiveness* is the degree to which the organisation achieves a stated goal.

We can, therefore, conclude that the objective of business management is *to help fulfil the goals of a business entity, whatever they may be, both efficiently and effectively*. Business management thus provides the vehicle through which business goals are achieved. The objective of business management is, therefore, unique in each case.

2. THE OBJECTIVES OF BUSINESS MANAGEMENT

The objectives of business management vary, depending upon the business firm. Some of the objectives or goals of business management are profit and/or its maximisation, increasing shareholder value, providing for the needs of customers, and/or, in addition to the above, building up a healthy social environment and thus contributing to the welfare and interests of society. These goals are not mutually exclusive. Having one does not necessarily exclude the others. These objectives are as follows:

2.1. PROFIT AND/OR ITS MAXIMISATION

Management needs profit in order to manage. This *profit objective* must be at least *equal to the required minimum profit*. Yardsticks are required to measure a business firm's profit performance against this requirement. It is absolutely necessary for the business enterprise to produce, at the very least, the profit required to cover its own future risks, so as to enable it to remain in business and to preserve the wealth-producing capacity of its resources. This '*required minimum profit*' affects both business behaviour and business decisions. The guiding principle of business economics is that the business enterprise must produce the premium to cover the risks inevitably involved in its operation. The main driver of this risk premium is *profit*.

2.2. CREATING VALUE FOR CUSTOMERS

In this theory, the customers define the value. Value takes many forms and comes from many sources. Value may come from a product's usefulness (utility), its quality, the image associated with it (usually by advertising and promotion), its availability, and the service that accompanies it. Value is defined not only by what an *organisation does*, but also by *the customers*

who buy its goods and services. Business firms exist to serve the needs of people who are outside that firm. Therefore, firms are a means to an end and not an end themselves.

One of management's chief responsibilities is to remember this external orientation and to remind others about it constantly. Constant reminders are necessary, because it is natural for people who live inside an organisation to get wrapped up in what they do, to focus on what they produce, whatever it may be, and on what goes into making it. Hence, the only test of a job well done is whether a customer is willing to buy the firm's product or not.

2.3. MAXIMISING SHAREHOLDER VALUE

Economists, such as Nobel laureate Milton Friedman, have argued that the shareholder must always come first and that the goal of management is simply to maximise shareholder value. However, it has been argued that management has broader obligations that should involve workers and society at large. Nevertheless, business managers will always have their attention and energy focused on the shareholders who, in the final analysis, are the ultimate employers of business managers; the shareholders being the principal while business managers being the agents. To this extent, therefore, maximising shareholder value has been identified at one of the prime objectives of business management.

3. ETHICAL THEORIES

While more and more companies are beginning to recognise the vast benefits of contributing to the community as a social responsibility, the choice of criteria for ethical decision-making is still an issue of great debate. Most ethical dilemmas involve a conflict between the needs of the part and those of the whole, the individual versus the organisation, or the organisation versus society as a whole.

Managers faced with tough ethical choices often benefit from normative approaches based on norms and values to guide their decision-making. Normative ethics uses several approaches to describe values for guiding ethical decision-making. These decisions determine the goals to be achieved by the company and the means by which they are to be achieved. These approaches may be based on one or more of the following four classes of theory.

3.1. CONSEQUENTIALIST THEORIES

Consequentialist theories hold that the moral worth of an action or practice is determined solely by its consequences, and not by the intent of the action. The primary focus is on the 'good' or 'bad' outcome produced. The objective of these approaches is to generate the greatest possible benefit for the largest number of people, while minimising the damage or harm to others. Utilitarianism holds that the moral evaluation will depend upon the good or bad consequences produced for everyone by the action. An action is judged to be morally correct if it produces the greatest possible balance of good for all persons. In doing so, it recognises that the rights of a minority group may be adversely affected.⁶

3.2. DEONTOLOGICAL THEORIES

The ethical nature of a decision is arrived at by looking at the process or actions used in arriving at the decision or outcome. The actions and practices have an intrinsic value. Some actions and practices may be morally wrong, no matter how good their outcomes. This suggests that it is impossible to determine the moral worth of the action purely on the basis of its outcome, because of the uncertainty of that outcome at the time the decision was made. That is, absolute certainty does not exist in the business world and, consequently, we can never really be sure of the consequences of our actions. Therefore, the moral worth of our actions should be based primarily on the approach taken to making the decision.

3.3. INDIVIDUALISM

This approach focuses largely on the benefits that can accrue to the individual. It holds that an act's moral rightness or wrongness depends solely on the outcome for oneself. Individual self-direction is paramount and external forces that restrict self-direction should be severely limited.

3.4. VIRTUE THEORIES

These are largely based on the works of great philosophers, such as Plato and Aristotle. Aristotle maintained that there must be purpose to activity, a general all-embracing concept of happiness, and that actions need to be virtuous. The essential aspect of the Aristotelian approach to business management is that we have to stop thinking of business activity as separate from personal life, and to change the focus of business

6 Stephen COLLINS and Yvonne McLAUGHLIN, 2nd Ed., *Effective Management*, North Ryde: CCH Australia, 1996.

thinking from profit and the bottom line to being part of a good life (i.e. contributing to well being) and treating others with respect and dignity.

Consistently with the latter theory, this paper agrees with Drucker that profit should not be the explanation, cause, or rationale of business behaviour and business decisions. The profit motive and its offspring, maximisation of profit, should not be the priority or the only function of a business, the purpose of a business, and the job of managing a business, however relevant this may be to business survival. Making it an exclusive priority is harmful. It is a major cause of the misunderstanding of the nature of profit in our society and of the deep-seated hostility towards profit. This is more so as many countries are now moving toward an industrial society, where profit is the ultimate goal of survival.

4. FURTHER LITERATURE REVIEW

The investigation of the role of ethics in business is not a new discipline as such. Much work has been done on how business firms should operate in society at large, rather than limiting their operations to the narrow definition of markets and profits, as it were. Beliefs that business should be ethical are founded on the premise that business organisations can pursue their objectives and at the same time engage in activities that, by and large, do not have a direct negative impact on profit levels or shareholder value. The objectives of business may vary. It is almost universally accepted that business organisations are set up to maximise profit, and that management, therefore, should marshal resources – financial, human, and so on – to make sure that the firm attains the highest return on investments or operations. Controversy about the ethical behaviour of business firms is based on the perceived inability of the profit motive to serve as the organising principle and sole purpose of business management, while at the same time serving the ethical demands of society.

Milton Friedman, taking a cue from Adam Smith's invisible hand, argues that the profit motive is the sole purpose of business; that its social responsibility is to return a profit and to maximise shareholder value. In a widely quoted and influential article, he asserts that 'the social responsibility of business is to increase its profits'.⁷ Elsewhere, he also maintains that the essential purpose of a firm is to focus on business: 'The

7 Milton FRIEDMAN, 'The Social Responsibility of Business Is to Increase Profits', *New York Times Magazine*, 13 September 1970.

business of business is business.’⁸ Many conservatives share this view, that if business firms are left alone to maximise profit, with minimal government regulation, business and societal goals will not be in conflict, as many fear. There are, however, dissenting views. Writing at approximately the same time as Friedman, Drucker maintained that the sole purpose of business is the creation of customers and satisfaction of their needs.

Menestrel believes that Friedman’s description of the social responsibility of business as profit maximisation leads to two basic conclusions. The first is that if business pursues profit, it will, according to Friedman, promote the common good. Therefore, ‘profit is ethical’. Second, Menestrel goes further, or rather reverses Friedman’s analysis of reducing ethical behaviour to economic rationality, by asserting that we can also reduce economic rationality to ethical behaviour. Therefore, ‘ethics pays’. He concludes, however, by observing that the reduction of profits to ethics and vice versa is too ‘simplistic, inappropriate and misleading’, mainly because it avoids the essence of an ethical dilemma: how to combine profits with ethical concerns. Menestrel sees these dilemmas as falling into three categories: optimal behaviour, involving practices that are both ethical and profitable; sacrificial behaviour, which is ethical but unprofitable; and irrational behaviour, which is both unethical and unprofitable.⁹

Regardless of the varying goals of business, their involvement in ethics is an issue that has been debated for long. The participation of business in ethical activities has been seen as requiring managers to forego the use of financial resources to invest for an immediate return and instead to devote these resources to social causes that have no return at all, or only a small return that is often non-quantifiable, takes a long time to accrue to the business or, in the worst case, accrues to other firms. Lindfelt, in outlining the dilemma faced by business in corporate social responsibility, observes that conclusions regarding how we value business involvement in ethical causes are based upon the philosophical frameworks in which we believe. Lindfelt observes that business operations today are mainly influenced by material monism, which emphasises material accumulation, individualism, and technical progress. She parallels the ethical dilemma to the paradox of value: which is more valuable, water or a diamond ring?

8 FRIEDMAN, ‘The Social Responsibility of Business’, in Tom L. BEAUCHAMP and Norman E. BOWIE, eds., *Ethical Theory and Business*, Englewood Cliffs, New Jersey: Prentice-Hall, 1983, pp. 81–83. See also: FRIEDMAN, ‘The Social Responsibility of Business Is to Increase its Profits’, in W. Michael HOFFMAN and Jennifer Mills MOORE, eds., *Business Ethics: Readings and Cases in Corporate Morality*, New York: McGraw Hill, 1984, pp. 126–31.

9 Marc Le MENESTREL, ‘Economic Rationality and Ethical Behavior: Ethical Business between Venality and Sacrifice’, *Business Ethics: A European Review*, forthcoming.

Is it water, which is essential for life, but fetches little market value, or an expensive diamond ring, which is inconsequential to the sustenance of life? She asks, 'Which is the more valued company in today's modern world – a corporation with impressive economic growth or a corporation whose goal is to end poverty and improve quality of life?'¹⁰

Often, when business managers make choices of whether to devote energies and resources to ethical causes, the fundamental question being tackled is whether it is more valuable to put money in ethical causes or to spend these funds, for instance, in boosting marketing budgets that have a direct and visible impact on company bottom lines. The latter thinking (rational analysis) still dominates business and company policy. The reasoning is that participation, indeed investment, in ethical causes and issues does not add to profit margins as such; it is valueless and, therefore, not worth the expenditure of scarce resources. Lindfelt goes on to observe that 'natural essentials of life (nature, air, water, love, respect) that are regarded as free can easily become valueless – until scarcity makes them hold an economic value and they can be sold.'¹¹

As a sort of middle way between the horns of the business-ethics dilemma, Korten maintains that one can pursue both economic and ethical value, without one necessarily giving way to the other. He claims that aiming at monetary or financial growth brought about in an ethical manner is the perfect solution, and that by ensuring that (1) the benefits of production outweigh costs and (2) the benefits are well distributed in society, business managers can solve the dilemma of the ethical company, so to speak. It is such realisations that have now informed what has been called 'globalisation with a human face' – the need for the forces and actors in globalisation to see beyond profit and have a holistic view that takes into account the perceived societal backlash that has been generated by the forces of enhanced movement of goods, services, capital, and cultures.¹²

Argandoña asks whether the coming of globalisation and the new economy should be met with 'new ethics'.¹³ In his opinion, although the environment in which business firms operate today is more dynamic and interconnected than before, the ethical challenges facing them are not radically different from issues of the pre-globalisation period. His answer

10 Lise-Lotte LINDELT, 'Corporate Social Responsibility in the New Global Economy', Occasional Paper 2002/1, Uppsala University, Sweden, 2002, p. 41.

11 *Ibid.*, p. 6.

12 David KORTEN, *When Corporations Rule the World*, London: Earthscan Publications, 1995.

13 Antonio ARGANDOÑA, 'Ethical Challenges of the New Economy: An Agenda of Issues', Research Paper No. 463, University of Navarra, Spain, 2002.

as to whether there is need for 'new ethics' is in the negative. The rise of the new economy does not call for fresh and brand new principles of ethical behaviour. It is acknowledged, however, that technological innovations of the new economy are presenting difficult and unprecedented dilemmas. Two examples are advances in information technology, which are blurring the line between information access and individual privacy, and advances in genetic engineering (read 'human cloning'), which are testing the commitment to ethical and moral behaviour of large pharmaceutical companies. This is the concern that was expressed by the United Nations Conference on Trade and Development (UNCTAD) when, in 1999, it published *The Social Responsibility of Transnational Corporations*. In this report, UNCTAD expresses the opinion that globalisation is indeed presenting a new ethical challenge to business firms, now trans-national corporations (TNCs). The concern of TNCs should go beyond national borders, since their effects do in fact fall on the foreign countries in which they are represented. UNCTAD thus saw the need for so-called 'new ethics'.¹⁴

In the era of globalisation, the call for more ethical behaviour by business enterprises is summarised in the now-famous slogan 'people before profits'. In a review of the first one hundred years of the Ford Motor Corporation's existence, Jeffrey E. Garten notes:

Many global companies share that dream [of putting people before profits]. Just how can big, publicly listed corporation serve shareholders when they are under agonising financial pressure and facing vicious competition, and at the same time balancing the need to devote attention to the workforce, customers, suppliers, and communities? ... This is one of the biggest and most intractable questions of our time.¹⁵

The expansion of global trade and the movement of companies across national borders have increased the need to have business firms not only act in ethical ways, as it were, but also take cognisance of local cultures and values. The challenge, as Garten notes, is to build a business sector with companies that produce good products and services, that society respects, and that reward their shareholders. All of these demands must be tackled at the same time.

As far as business ethics is concerned, modern business enterprises have tended to take one of the following two routes. The first is to develop an internal code of professional ethics within the enterprise itself, and then to communicate it to the outside world as its own benchmark of

14 UNCTAD, 'The Social Responsibility of Transnational Corporations', New York and Geneva: United Nations, 1999.

15 Jeffrey E. GARTEN, *Financial Times Weekend*, 31 May/1 June 2003, p.W5.

ethical concern. Second, some business firms have chosen to adopt or ratify codes or standards of ethical conduct that have been developed by organisations outside the firms themselves. These can be industry actors, governments, or international bodies or movements. For instance, the Organisation for Economic Co-operation and Development (OECD) is known for having developed codes for the operation of businesses in tendering processes, awarding of contracts, and reporting of information. Decisions by companies operating within the OECD to ratify and pledge to follow such standard codes are thus seen as signals of a commitment to ethical concern and conduct.

In nearly all of the work and business ethics literature in the past, the place of the standard business or corporate entity has always been seen from the uni-modal perspective. That is, this literature has asked how business can place itself in society by conducting activities that are seen as giving back to society. Such endeavours attempt to change the decaying aspects of society (e.g. by rehabilitating street children) or to redirect the un-ethical activities in society for the good. By and large, these efforts try to change a particular society that has gone bad.

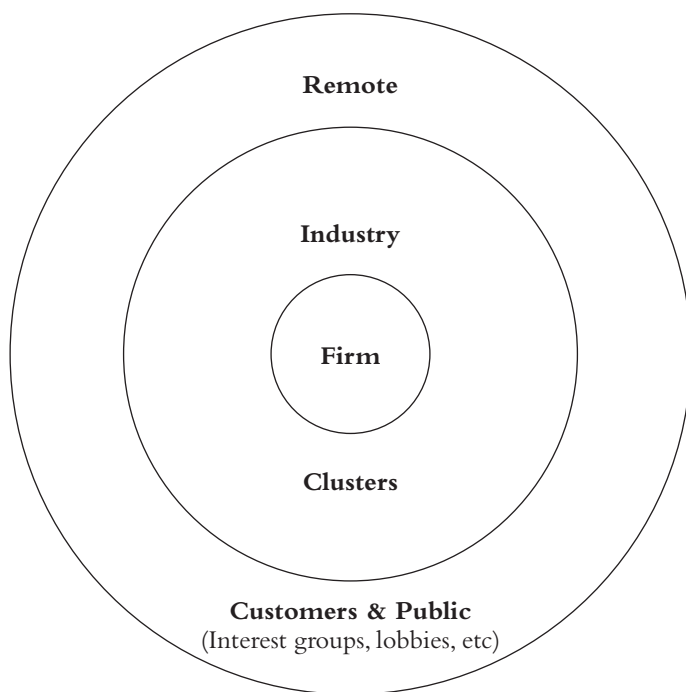
In addition to this, however, there is a need to begin asking causation questions. For example, given an ethical society and the profit-driven business firm, who influences whom? In the past, ethical practices of business have been set up to attempt to change the unethical aspects of society. But shouldn't businesses start caring about trying to prevent the occurrence of such an unethical society in the first place? This is perhaps the most strategic entry point for the business sector's role in creating an ethical society: targeting its social responsibility activities at the very places where society begins to define and nurture its values, rather than aiming to change what has already gone bad.

5. THE OPERATIONAL CONTEXT OF THE FIRM AND THE BUSINESS-ETHICAL DILEMMA

Ordinarily, profit – which is the premium for risk – and the subsequent increase in shareholder value are essential for the survival of a company. Their pursuit as the objective of business above all else, however, can be unethical. Furthermore, these objectives, when pursued at the expense of all else and in the absence of defined ethical values, may counteract the most important business management objective, which is sustainability, self-preservation, and thus survival. An exclusive and single-minded focus on profit can, therefore, be self-destructive to the business entity in the long run.

The explanation of this dilemma is as follows. Business firms do not operate in isolation, but rather, must function in a society made up of many actors. Societies, on the other hand, are structured around moral rules in a peculiarly fundamental way. Therefore, businesses must operate in a social structure that is in some ways as much ethical as it is legal, political, economic or cultural. This environment can, therefore, constrain business decisions. What this means is that the choice to do one thing or another will be influenced to some extent by the legal, political, economic, and cultural environments within which these businesses operate, and also by their ethical environments. The following figure illustrates this:

Diagram 1: Operational Context of the firm

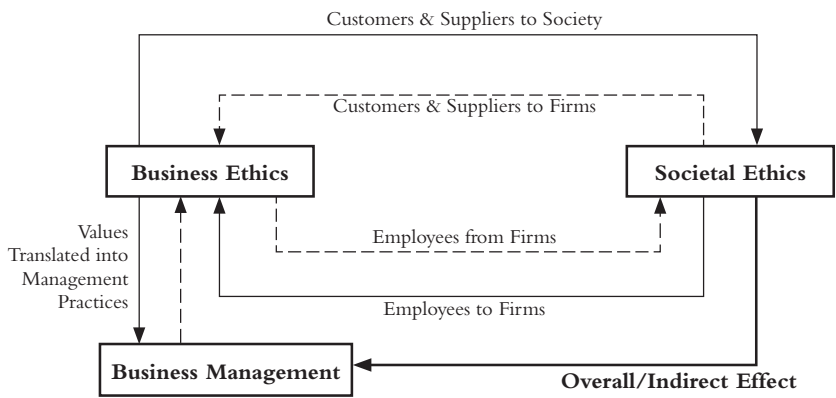


Business firms operate within specific industrial spheres called clusters. These clusters operate within spheres called industries, which in turn operate within larger spheres called societies. A society is made up of the general public, interest and lobby groups, customers, suppliers, etc. Furthermore, business sources its main resource, people, from society.

Although Friedman argues that business corporations have only one social responsibility – to increase profits – and that meeting ‘social

responsibilities’ means reducing returns to stockholders and amounts to spending their money, he acknowledges that this is to be done while conforming to the basic rules of society, in either legal or ethical codes. This means that customs and societal values will have to affect business. It will, therefore, be impossible for an organisation that operates in a society with an unethical culture to increase share value or even to maximise profit. Societal values that conflict with business ethics will cause dilemmas in business and affect the overall management of the business. There is a give-and-take process or exchange of values between the different entities operating in society, and society as a whole. This, therefore, gives rise to a clear flow of values, as illustrated below:

Diagram 2: The Circular Flow of Values



Values flow from society to the business sector through the employees and suppliers. These are values that guide these employees’ and suppliers’ conduct, be it moral or otherwise. Individual values are a result of social ethics, which is based on certain values that a society upholds, which members acquire because it suits them – this varies from individual to individual. Hence, individual values are formed over time and will always determine the action taken by business, especially when faced with an ethical dilemma.

Business managers are also sourced from society. The ethical values that they uphold when faced with ethical challenges will be dependent to a great extent upon their personal morality. This will influence or be translated into management practices, and will eventually contribute to overall organisational values. This is especially so, because the process of defining organisational values is participatory and, thus, very much influenced by the personal values of those involved in the process. Values

also flow from society to the business firm through customers, though the influence here is weak, since interaction with one and the same customer is not as strong as interaction with suppliers and managers who are permanent in the business.

On the other hand, values flow from the business enterprise to society through employees, suppliers and customers, who carry to society the values they have acquired from the business sector. As noted above, once the values in the business sector are influenced, they are translated into business ethics and finally incorporated into business management practices. The entire process of transfer and exchange of values is what I call *the circular flow of values*.

Values do not remain constant. Furthermore, at times there are injections and withdrawals from this circular flow. Withdrawals can occur over time due to cultural and social changes. Some examples are immigration and developments, such as religious movements (e.g. the charismatic movement of the Christian faith), behavioural movements (e.g. sexual abstinence due to the HIV/AIDS epidemic), and anti-corruption movements (e.g. best practice codes produced by Transparency International or the OECD). Injections into the system also occur due to cultural and social change and due to sectoral influences such as human rights, governance, and multinational business corporations. Other injections may be consequences of globalisation.

Webley and More, of the Institute of Business Ethics (IBE), have conducted studies that seem to confirm Menesterel's view that 'ethics pays'. The IBE conducted surveys of British corporations that either have an ethical code of conduct or state that they do not, and found that those that follow ethical practices in their operations and quote ethical codes in their reporting have better economic and financial value.¹⁶ Using data for 1997 to 2001, the study states that commitment to ethical practices enhances a company's profit or turnover ratio by as much as 18%, compared to companies that lack such a commitment. In another study, Spence found that in small and medium-sized enterprises, non-profit goals rank just as high as profit goals.¹⁷

This demonstrates, to a great extent, that societal ethics does impact the achievement of the objectives of business management. The foregoing literature also reveals that, where the maximisation of a particular financial variable is or is not the objective, the core objective of business

16 Simon WEBLEY and Elise MORE, *Does Business Ethics Pay?* London: Institute of Business Ethics, 2003.

17 Laura L. SPENCE, *Practice, Priorities and Ethics in Small Firms*, London: Institute of Business Ethics, 2003.

management should have as an integral part the influencing of societal values and thus contributing to the formation of ethical societies.

Consequently, if a society is made up of thieves and corrupt people, the systemic risk of doing business will be increased. The costs of establishment (licensing and acquisition costs) will be higher than they should be. The costs of production and transaction costs will also rise. This results from having to deal with unethical suppliers and dishonest employees, for example. Therefore, the firm will not perform efficiently and effectively. Furthermore, the firm's reputation may be marred, due to disloyal and unscrupulous employees, reducing profit and share value.

The circular flow of values illustrates that the effects of an unethical society on the business firm are certain and adverse. Conversely, the effect of the behaviour of the firm on societal habits can be very strong. Therefore, two-way transmission is the basis on which the business sector can play a significant role in founding an ethical society.

6. CONCLUSION

The answer to the question of whether the proper objective of business management is the maximisation of a particular financial variable is NO! Rather, as illustrated above, the business enterprise should work to influence the societies within which it operates. In our case, firms should strive to *found an ethical Kenya*.

The argument for founding an ethical nation is not merely that it is a potential source of competitive advantage for the business sector. There should be other reasons for ethical business management, going beyond purely materialistic objectives. If the corporation's reasons are merely materialistic, then the case for ethical business management is itself unethical, because it rests on the proposition that being ethical is merely a means to an end, rather than an end in itself.

Much can be salvaged, if we turn the question around and ask how business firms can intervene in society to prevent the negative outcomes that are costing business, and government, large amounts of financial resources. For instance, much has been said and written about economic crime and how it affects business itself and the economy in general, through such transmission mechanisms as corruption. But how many business firms see economic crime as a vice they should care about and, indeed, that they should invest in preventing? This is not just the role of government, or anti-corruption courts within the judiciary. The business sector has a role to play, at least to attempt to minimise the magnitude of losses incurred due to economic crimes.

In an economic crime survey that was conducted in Kenya, Tanzania, and Zambia by the international consulting firm PricewaterhouseCoopers, it was established that 58% of participating firms were affected by economic crime. For all 158 firms surveyed, costs due to economic crime amounted to a total of US\$ 206 million. Defining 'economic crime' as the intentional use of deceit to deprive others of money or property, 'embezzlement' as theft by employees, and 'breach of trust' as theft by management, the survey revealed what is essentially a break from conventional business wisdom: 'the greatest risk to companies comes from their own employees and managers rather than from the outside'.¹⁸ On average, 65% of the respondents from the three countries said that crime is committed internally, taking place within the organisation itself. For firms surveyed in Kenya, 79% perceived crime as an internal problem. The survey noted:

All organisations can do their part to restrict economic crime – adopting strong corporate governance principles, business ethics and corporate codes of conduct is a good place to start. . . . Governance is not something that can be imposed from without but rather has to be embedded in the strategies of an organisation. It calls for a change of mindset and a cultural change. Good corporate governance will only flourish with good leadership, a strong sense of ethics, and good national governance.¹⁹

The conclusion from this is that, as much as the adoption of external ethical practices and codes of conduct is important, efforts to change the nature and level of ethical standards in society at large are perhaps the only sustainable, long-run, and permanent solution that businesses can adopt to avoid the loss of financial resources and risks related with an unethical labour force.

Finally, there will be vast benefits for business in an ethical society. When the business firm is ethical, it is easier to encourage reciprocal behaviour from the people and organisations it deals with. The organisation will attract ethically minded employees and be more likely to retain customers, all resulting in competitive advantage. Therefore, high standards of business ethics, if properly pursued, should enable the actions of employees to be aligned more closely with their own ethical aspirations. It is in a company's self-interest to be ethical, not only because this will increase the probability of its success. In the final analysis, and more fundamentally, this interplay of values can lead to a convergence of

18 PricewaterhouseCoopers, 'Counting the Cost: Report of an Economic Crime Survey in Zambia, Tanzania and Kenya', Nairobi, Kenya, 2002, p. 7.

19 *Ibid.*, p. 2.

personal, business and societal ethics. This convergence point should be the basis of an ethical nation.

One of the effects of an ethical nation will be a boost in business ethics. This, in turn, will create confidence among customers, improve relationships with external organisations, and create an environment in which the firm can generate synergy with suppliers and ultimately increase its profits. This argument, however, is a result of an interest in the relationship between business and individual or societal ethics, and how this relates to overall organisational effectiveness.

7. RECOMMENDATIONS

The entire country should foster the birth or emergence of a new system of values. This should be done within a national and contemporary public ethics paradigm. The people of Kenya need to review our experiences, with the aim of learning from our past failures and drawing strength from our successes. We should then attempt to define our national values.

Companies should invest in the teaching of social ethics in educational institutions, or devise programmes in which virtues that are key to the honest practice of business are taught. This would minimise, and perhaps even eliminate, such expensive exercises as lengthy recruitment processes aimed at hiring the best employees, refresher courses for staff members, and costly control measures. This should be viewed as backward investment – trying to change the value systems of the members of a society who will one day form the labour pool from which businesses will recruit staff. This is part of the task that firms can take up in the building of an ethical society. The long-term dividends are enormous. Even though this would not lead to the much-desired ‘people before profits’, it would be used as a foundation for ‘profits and people’.

THE SEARCH FOR METAPHYSICAL, EPISTEMOLOGICAL, MORAL PRINCIPLES TO SERVE AS A BASIS OF BUSINESS MANAGEMENT

JOSEPH KAHIGA KIRUKI

1. INTRODUCTION

‘If then you cannot be trusted with money, that tainted thing, who will trust you with genuine riches?’¹ Thus, the concepts of money, business and profit-making represent the materialistic, *irrational* (perishable) aspect of the human person; yet, the essence of the human person, transcendently considered, is *rationality*, which in such circumstances is ignored and treated indifferently.

The materialistic conception of profit pervades our consumerist world; yet, the Scriptures are very clear that the notion of business is to be understood analogically, so as to imply also the transcendental benefits in the varieties of human *business* transactions. The human person is the ultimate commodity for *sale* to the *highest* bidder, which ambivalently lies between the subtle principle of the good (*imperishable, rational*) and the alluring and deceptive principle of evil (*perishable, irrational*), as depicted in his existential life situation in the world.

2. THE ROOT OF THE PROBLEM

The problem of how, if at all, we could set about justifying assertions concerning what we ought to do in various practical situations, such as in *business ethics*, is one that has been a major concern of moral philosophers. We ask not only whether we can ever know what we ought to do, but also whether we can justify our claims to knowledge of an external world, how we can know the truth of statements about the past, or whether we can ever be sure of the existence of minds other than our own. In ethics, the problem looks even more glaring to all and sundry.

Ethical attitudes vary more from society to society and even between individuals than do our beliefs about the external world or other people’s feelings. There is, hence, the controversy about ultimate metaphysical moral principles that ought to be the basis or foundation of any moral action.

3. THE PROBLEM OF THE JUSTIFICATION OF AN ETHICAL THEORY

The problem of justification in ethics is parallel to similar problems in epistemology: the problem of permanence (Parmenides)² and change (Heraclitus)³ and the eventual apparent reconciliation of the problem by Aristotle through the application of the notions of potency and act to the concept of being.⁴ These same dialectical aspects are seen within rationalism, empiricism and the apparent reconciliatory role of Kant in his critical rationalism.⁵

Thus, the search for truth follows a dialectical fashion that is endless in character, meaning that it is elusive and requires endless refinement and whoever wishes to possess it will require humility, patience and diligence. The same can be said of ethical theories that search for objectivity; they must have a sound metaphysical basis, and hence an epistemological solid basis, in order to form objective ethical theories.

4. THE AUTONOMY AND OBJECTIVITY OF MORAL PRINCIPLES

There seems to be a conflict between the autonomy and the objectivity of moral principles. The concept of the autonomy of ethics originates from Kant, in the view that an action is not moral unless it is determined by the agent's rational will, rather than by something external to that will, such as desire or the will of another, king, friend, state or God. The point is that in the justification of a moral judgment one must have recourse to a moral principle, which must in turn be justified in terms of some more general moral principle. Thus, a moral judgment or principle is never deducible from any set of premises that contains no moral judgment or principle.⁶

The demand that morality be regarded as objective was stressed by Kant. A moral act for Kant was one that could be willed by an autonomous, rational will; its character as a moral act depended not on the particular nature or desires of the willing agent but on the nature of

2 Cf. PLATO, *The Dialogues of Plato*, Vol. 2, trans. Benjamin JOWETT, New York: Random House, 1920, pp. 87 ff.

3 Cf. Reginald E. ALLEN, *Greek Philosophy: Thales to Aristotle*, New York: Free Press, 1985, pp. 40 ff.

4 Cf. ARISTOTLE, *Metaphysics, Books I-IX*, ed. G. P. GOOLD, trans. Hugh TREDENNICK, London: Loeb Classical Library, 1989.

5 Cf. Immanuel KANT, *Critique of Pure Reason*, trans. J. M. D. MEIKLEJOHN, London: Everyman's Library, 1991.

6 Cf. KANT, *Critique of Pure Reason*, pp. 456 ff.

a rational will as such. For Kant, a maxim is objective when it is valid for any rational being. This is the objectivity that is to be sought in *business management*, which has as many diverse subjective ethical orientations as there are different ethical theories that are aimed at maximising profits in total disregard of the good of the customers.

The controllers of the economy of a country are the real citizens of that country. The multinational companies, insofar as they control a large percentage of the economy of a country, own the country, while a large majority of the people are alienated and remain largely as *slaves* of the multinationals or controllers of the economy. This is the evil product of the materialistic business ethics that focuses on profitability at the expense of human dignity and fair play.

Nature abhors a vacuum. A dialectical reaction against this state of affairs of one-sided, unfair business is to be expected. Strikes will follow and, if they are not effective, terrorism is bred to force down reason into the mind of the exploiters, so that they eventually may follow the objective, universal ethical principle that takes care of the interests of all concerned, rational parties.

Our sense of objectivity is related to that of Kant; thus when one's judgment is categorised as subjective rather than objective, this means that some idiosyncratic factors, such as hopes and fears or special interests, have affected the judgment. An objective judgment is one that is not affected by such idiosyncratic factors and one that any reasonable and unbiased person would form in the same circumstances.⁷

We speak of objective matters in respect of such that are in the public domain and, consequently, are determinable. We might say with Kant that objectively true judgments are those that are valid for all rational beings, rather than what merely seems to be so to certain individuals.

The demand of objectivity in ethics may then be put at its most minimal as the demand that the truth of any moral judgment shall not depend on the peculiarities of the person making it, but rather that it shall be determinable by any rational observer who is apprised of the facts. Its truth will not depend on the fact that is judged so by some one person rather than another, but on objective considerations.

Kant's demand for autonomy and objectivity amounts to the requirement that a morally good action be rationally chosen in accord with the law that is valid for all rational beings universally and that is determined by nothing beyond itself. In order to justify this point, we

7 Cf. KANT, *Critique of Pure Reason*, pp. 471 ff.

advance three ultimate principles: impartiality, rational benevolence and liberty.

4.1. IMPARTIALITY

In the principle of impartiality, insofar as morality is practical and universal, what one ought to do in any given set of circumstances is what anyone else ought to do in the same circumstances. That one ought to treat similar cases similarly is a general case of the particular requirement of justice toward men, that any form of treatment which is thought to be right for any one man must be right for all others, unless the others are significantly different (*irrational*).

In business, proprietors are to consider themselves in the position of their consumers, who are equally rational as themselves, and ought not to extract maximum profits to the detriment of the other party. Moderate profits are acceptable, provided that the social obligations of the proprietors are accomplished and all environmental considerations are taken care of.

4.2. RATIONAL BENEVOLENCE

The principle of rational benevolence is stated by Sidgwick, that one ought in action to consider the interests of all things in the universe.⁸ The demand of objectivity is that what is right or wrong should be determinable, at least in principle, by all rational beings. This requires that moral discourse should be a public discourse, in which the relevance and force of any consideration is dependent on its rational content and not on the will or status of whoever puts it forward.

Thus, the remark of any rational being may be relevant to the question of whether some action is right or wrong; otherwise a given moral stand may not be regarded as fully rational, autonomous and objective. If any arbitrary exclusion of possible interlocutors is made, then we do not have publicly objective, scientific discourse, but a sort of game in which arbitrarily selected players alone are entitled to make certain moves and in which what is determined in the outcome is who has won, rather than what is true. Expediency takes the place of truth; thereby injustice is entrenched in structures that lack such objectivity.

Developing countries are victims of this state of affairs, whereby agricultural commodities of the so-called *developed* countries are highly subsidised, thereby imposing unfair trading practices on *developing* or

8 Henry SIDGWICK, *The Methods of Ethics*, 7th Ed., London: Macmillan, 1907, p. 382.

highly-indebted countries, which are burdened with loans that continue to make high profits, thereby crippling the economies. Donor dependency syndrome becomes a tool of subjugation or economic neo-colonialism, which is so entrenched into the economies of developing countries, where the interests of the donor funds as extracted from developing countries become the *life-blood* of the citizens of those countries. Where is rational benevolence in such practices?

As far as public, objective moral discourse is to be possible, it is presupposed that what is determined by such means will not neglect the interests of any rational being. Therefore, in deciding what I ought to do, or what anyone ought to do, the interests of all rational beings whatsoever must be taken into account. Thus, the rational discourse of citizens of the developing countries must be taken into account. Otherwise, we all enter into the irrationality of doing business using the law of the jungle (*irrationalism*).

4.3. LIBERTY

The principle of liberty is that one ought not to interfere, without special justification, in the chosen course of any rational being or impose on any rational being conditions that will prevent him from pursuing his chosen course of action. Moral discourse guides action on the rational path.

We try to determine action on the basis of a rational consideration of the nature of the action and its context through rational persuasion, not by some other means, such as violence, emotionalism or arbitrary actions. The various trade disputes witnessed in our contemporary world arise out of individualistic special interests that totally disregard the interests and economic progress of other rational parties. Such an imbalance is a recipe for disasters that could develop into staggering proportions.

All rational beings belong to this world and none belongs to it more than any other. Furthermore, all natural resources belong to all equally; hence, the unfair distribution of the same will breed rational protests, wars and terrorism (*irrational*). Petroleum-producing countries must not choke the world by overpricing *our* natural resources. Such a commodity must be for the good of all, and those manning the resources must be rational in pricing, bearing in mind that the stability of the world economy is also for their own good.

5. CRITIQUE AND CONCLUSION

The challenges lie in the application of these principles to particular situations, both in themselves and in relation to one another. The

foundation has been laid; the burden is on the ethical builder, who must put up a structure of a house called *business ethics* in management upon the foundation of the principle. The structure above the foundation must follow the rationality of the foundation itself; in such a case, then, we can be in a position to talk about the rational justification of particular moral judgments, in this case, profitability in business ethics.

The ultimate principles could never be justified objectively in any absolute way (not every rational being can have a chance to put their rational input into them through a scientific, objective discourse as a public domain factor). There are, however, arguments demonstrating them to be necessary and universal by virtue of the fact that, if objective practical discourse is possible to a given extent, then to that extent they can be objective.

Thus, we can say that ultimate principles are necessary but not sufficient for the justification of particular judgments, as in the case of profitability in *business ethics* or any other consideration of an ethical nature.

THE OBJECTIVE OF BUSINESS MANAGEMENT AND THE NECESSITY OF ETHICAL BUSINESS MANAGERS

MIRIAM P. NARBARTE

1. INTRODUCTION

Anybody can readily determine that an individual who goes into business – service, commercial, industrial, or international – has one basic goal: to make money and more money. In this context, making money, earning profits, and creating wealth have the same meaning: acquiring money. When a sole proprietor invests his savings in a business enterprise, he has in mind that in the course of his operations his investment will earn money. When people pool their resources to form a partnership, again, the partners have in mind that in the course of their operations they will increase their wealth. This is also true of stockholders; when they invest their money in a corporation or a cooperative, they expect to receive more return or profit. No one goes into business with the intention of wasting his investment.

Students are likewise taught how to manage the resources of a business efficiently and effectively, in order to earn more profits. In *marketing management*, innovative strategies are developed for the purpose of marketing the business competitive, in order to capture more market share, thus gaining more profit. In *financial management*, the sourcing, allocation and utilisation of funds are directed towards maximising wealth. In *human resource management*, the focus is on acquiring the best workers and developing and maximising their contributions to the organisation, in terms of both physical and mental outputs, in order to increase the wealth of the business. In *operations/production management*, processes are conducted in a manner that leads to the lowest cost of producing quality goods and services. In short, every business management activity is geared towards moneymaking.

2. THE OBJECTIVE OF BUSINESS MANAGEMENT

In the pursuit of making money, however, managers should conduct their business ethically. *Wealth maximisation through ethical means* should be *the proper objective of business management*. When a manager conducts his business ethically, the act of social responsiveness follows automatically. By practicing ethics, the manager will do what is right – he is not there

just to make money, full stop. He must make money so that the business can do something more or better to satisfy the stakeholders, which will in return result in more money.¹

3. ETHICS: THE FOUNDATION OF ALL ENDEAVOURS

The word 'ethics' is defined as a body of knowledge that judges the 'rightness' or 'wrongness' of an action. This definition needs to be expanded, however, in order to cover, in addition to actions, the whole gamut of a human life, from inclinations or tendencies through passions or emotions to habits and character. Therefore, we mean by 'ethics', more specifically, knowledge about a person's moral character, which is in turn closely related to the habits that he cultivates and the actions or activities that he performs. Ethical knowledge is a judgment of the moral worth of such character, habits and actions.

Jaime Cura, in an address delivered to business educators, cited a study conducted at the Josephson Institute of Ethics. The study determined that the ethical attitudes of high school and college students in America reflect deteriorating ethics in society in general, exemplified by a system where it is the bottom line that counts. In this system, ethics is for wimps; honesty is not always the best policy. And liars or the dishonest often prosper.²

Not everyone has given up on ethics, though. Conspicuously, a number of companies and persons still conduct business ethically, as did their parents and grandparents before them. They treat their customers with respect and honesty, and they operate with integrity. Yet, there can be no doubt that we are seeing ethical lapses that are unparalleled in history. The reality of the matter is that people today are willing to do business less ethically than ever before.

Ethics and morality make up one seamless fabric of human behaviour, whether one is focused on oneself only as an individual or with other persons as well. Ethics and morality cannot be compartmentalised. Ethics and morality are never relative. Ethical and moral imperatives remain the same and constant for all human beings, whether physically isolated from each other as individuals or relating to each other as members of a community or society.

1 Rafael A. RODRIGUEZ and Erlinda S. ECHANIS, *Fundamentals of Management*, 2nd Ed., Manila: Diwata Publishing, 1993, p.11.

2 Jaime CURA, 'Social Responsibility in Business', Speech Delivered to Business Educators, 26 November 1992.

4. PARTICIPANTS IN DEVELOPING ETHICAL BUSINESS MANAGERS

Many business managers fail, not because of lack of competence, but because of a problem of character, a moral choice.³ There has been an ethical and moral crisis in their operations. According to the former editor of the *Harvard Business Review*, Kenneth R. Andrews, 'any decline in ethical behavior is chargeable to all the institutions of society that deliver morally weak people to the companies they operate or join. Long before people go to work to make a living, the family, church, and school have shaped their moral characters'.⁴

If the ethical ecological system, the soil of the family and the root of the church are polluted, what of the school? If the school curriculum has been stripped of almost all ethical content, the universities will have students who are ignorant of moral principles and practices. The strengthening of moral foundations awaits many of the younger generations and is a major responsibility of today's educators. A school system devoid of moral teaching and a curriculum based on fundamental values is creating not only an educational problem, but also a workplace problem, for decisions made without a moral framework affect products, services and public welfare. University graduates should have the essential foundation needed to make ethical decisions, or to recognise an ethical issue when they encounter one.

Primary factors necessary for a stable ethical foundation include a strong family influence that teaches right and wrong from childhood, a broad training in ethical thought as seen through religion, history and literature, and scientific instruction in ethical issues themselves. When the breadth of training is missing, it becomes very difficult for the educational system to train students in ethical decision-making, since young men and women do not know how to recognise an ethical issue.

Students should be introduced to facing ethical dilemmas in the classroom, so that they will be able to recognise an issue of right and wrong. This is because the formative elements of their earlier years did not prepare them for ethical reality.

The deterioration of moral standards in society can be attributed to the breakdown in the institutions traditionally relied on for moral re-armament: the family, the church, and the school. This has led to a new direction in our culture: the money culture. Previous generations focused

3 Amar BHIDE and Howard H. STEVENSON, 'Why Be Honest if Honesty Doesn't Pay', *Harvard Business Review*, Vol. 68, No. 5 (September-October, 1990), p. 121.

4 CURA, 'Social Responsibility in Business'.

on making products, but today's generation finds its driving force in making money and activities related to money. We once took pride in our products; now we take pride only in our possessions. Unless our deteriorating institutions are restored, efforts to correct the problem will be futile and ineffective. In short, the ethical ecological system is deeply damaged, the soil of the family lacks nutrition, the root of the church is undernourished and shrivelled, and the rain of the educational system is acidic and destructive.

5. THE ABSENCE OF ETHICS

Unethical businessmen will do whatever it takes to get by; they are uncommitted to doing what is right. They sell products with untruthful labels, exaggerated usefulness, poor raw materials, and deceptive packaging, and sometimes sell expired items. They make many promises to their employees in order to motivate them to work harder, but in the end do not give what is fairly due them. They take for granted their health care, professional growth, and the guarantee of reasonable living standards. They deliberately schedule trips when they know that their suppliers will come for collection. They issue post-dated checks without prior arrangements, and sometimes even issue checks without sufficient funds. They also hide information from their stockholders/owners, in order to make them believe that the company is doing well, thereby protecting their vested interest in the organisation. They close their eyes and turn a deaf ear to the community. They try to window-dress their financial statements, in order to avoid paying the right amount of taxes. They also try to destroy their competitors, in order to become the sole sources of goods and services in the area and to be able to do whatever they wish, at the expense of their stakeholders.

Unethical businessmen do not have a passion for anything except more wealth. They no longer run their companies for the benefit of their consumers, employees and other stakeholders, but instead run them for their personal ambition and financial gain, personal greed, insufficient scrutiny of corporate affairs and insensitivity or indifference to public welfare.⁵

Unethical businessmen desire the fast-paced rat race only in order to become rich; they are slow in responding to the needs of their customers. They are not interested in providing after-sales service; they do not give product guarantees. They do not care about the feelings of their

5 Charles HANDY, 'What's a Business For?', *Harvard Business Review*, Vol. 80, No. 12 (December 2002), p. 49.

employees and instead impose bureaucracy on them. All they want is to obtain money, profit, value, or wealth as quickly as they can.

Should we be surprised at the fruit that our polluted ethical ecological system produces? Should we be surprised when some of business's brightest and best go to jail because of crimes related to dishonesty? Should we be surprised when educators avoid absolutes in the name of instructional equity? Should we be surprised when politicians pursue their own pleasure and aggrandisement at the expense of the people? Should we not expect a tidal wave of unethical endeavours? What can pollution produce besides more pollution? Has anyone ever seen a polluted river produce pure water? Can barren soil produce bountiful fruit? This barrenness that we contemplate brings us to the most painful reality of all: the opportunity for fruitfulness has never been greater in history than it is in our age.

In terms of communication, we can send information almost instantly with modems, cellular phones, personal computers almost as powerful as mainframe computers, and fax machines. Technology holds the key to today's opportunity. Tragically, the barrenness of our ethical soil may not be able to sustain us in this unmatched opportunity. Despite the amazing opportunities for technological advancement, we run the risk of not having the business leaders we need to lead us forward to those opportunities.

6. IN DIRE NEED OF ETHICAL BUSINESS MANAGERS

In the business world, we need a new breed of business managers: those who go beyond the bottom line, who, without fanfare or personal ambition, go about reclaiming our personal/ethical ecological system and rebuilding an ethical foundation.

Our time cries out for men and women who in their inmost souls are true and honest, men and women who cannot be bought or sold, men and women who are determined to turn from wrong to right, men and women who refuse even in their private lives to take the shortcut to selfishness.⁶ These will be people who define what they will not do, so they can focus on what they must do. This new breed of men and women will influence their business organisations to turn from seeking a profit at any price to seeking profit with dignity and concern, not only for themselves, but above all, for the culture that gave birth to them. Such persons are models of moral excellence and personal sacrifice, who

6 Ellen G. WHITE, *Education*, Mountain View, California: Pacific Press Publishing Association, 1952, p. 57.

influence others to move them toward dreams of accomplishing true greatness and to deliver them from the apathy of self-focus. These men and women are the ethical business managers whose primary objective is to make money ethically. In making money ethically, these business managers keep responding socially to the demands of the various groups of stakeholders they deal with: customers, employees, suppliers, stockholders, community and society, competitors, government and the church.⁷

Ethical managers are socially responsive to their customers' needs. They should start with the production of goods and services by using the right raw materials, the right people to work on them, the right machines to process them, the right technology to use, etc. The products offered to customers should be safe, dependable and of high quality, to ensure customer satisfaction. Product descriptions should not be exaggerated. Packaging and promotion should be truthful. Prices should be reasonable and fair. 'Honest standards when measuring length, weight, or quantity' should also be used (Lev 19:36, Prov 11:1).

Employees depend on the business for the means of livelihood.⁸ Paying employees their salaries equitably and fairly is a social responsibility (Rom 4:4). Unfair labour practices, delayed salaries, and exploitation of workers should be found in the system. Jeremiah 22:13 says, 'Woe to him . . . who makes his countrymen work for nothing, not paying them for their labor.' Furthermore, employees' rights should be respected and their welfare and security should be given importance.

Fulfilling obligations to suppliers on time is also a social responsibility. As early as the nineteenth century, E. G. White advised in *Counsels on Stewardship*, 'Shun the incurring of debt as you would shun leprosy.'⁹ This statement is also supported by Rom 13:7-8: 'Give everyone what you owe him . . . and let no debt remain outstanding.'

It is also the social responsibility of business managers to update stockholders on the affairs and operations of the business and the right picture of the financial statements (Matt 25:20). Overstating actual

7 Archie B. CARROLL, *Business and Society: Ethics and Stakeholder Management*, 3rd Ed., Cincinnati, Ohio: South-Western College Publishing, 1996, p. 76; and Miriam P. NARBARTE, *Fundamentals of Business Organization and Management: A Study Guide*, Manila: AUP Printing Press, 2000, p. 6.

8 Lane K. ANDERSON and Harold M. SOLLENBERGER, *Managerial Accounting*, 8th Ed., Cincinnati, Ohio: South-Western Publishing Co., 1992, p. 10.

9 Ellen G. WHITE, *Counsels on Stewardship*, Washington: Review and Herald Publishing Association, 1940, p. 272.

audited profits in order to make things appear better than they really were is unethical.¹⁰

The community expects a business firm to be a good neighbour.¹¹ Social responsibility also helps the community to improve people's quality of life. It is just like 'loving our neighbors' (Matt 5:43) and 'remembering the poor' (Gal 2:10, 2 Cor 9:7). In addition, ethical managers should consider how they can dispose of their waste properly, so that they do not harm people, society and the earth.¹²

Paying the right amount of taxes to the government (Rom 13:1-2,6) and giving tithes and offerings to the church (Mal 3:10; 2 Cor 9:6) are also acts of social responsibility, for Jesus said in Luke 20:25, 'Give to Caesar what is Caesar's and to God what is God's.'

Competitors are business organisations who are also attempting to conduct business just like oneself. Unfair competition and denigrating one's competitors for one's own advantage are practices inconsistent with being a socially responsible business manager.¹³

7. THE END RESULT

Many managers are not in favour of social responsibility, because they believe it tends to reduce the amount of money they can make. Such managers are short-sighted; they fail to realise that the costs incurred in social responsibility are for a short period of time. They fail to envision that those costs will generate more money in the long run. If the business is operated in a healthy, just, right, good, and legal manner, it probably will continue to exist in the future and its long-term viability is more certain.

Ethical managers are responsive to the needs of their stakeholders. They multiply their money when they are able to satisfy their customers and make them happy. This will result in more sales, more revenue, more income. Contented employees are more loyal, more concerned about the company's welfare, and more productive. They can effect lower operating costs, lower accident rates, lower wastage, and thus can increase profitability. Good relationships with suppliers will mean continuous supply, on time. They will continue to boost the name of the

10 HANDY, 'What's a Business For?', p. 49.

11 ANDERSON & SOLLENBERGER, *Managerial Accounting*, p. 10.

12 Michael Jay POLONSKY and Alma T. MINTU-WIMSATT, eds., *Environmental Marketing: Strategies, Practice, Theory and Research*, New York: The Haworth Press, 1997, pp. 213-14.

13 Clarita C. LANTION, *Fundamentals of Management*, Unpublished Student Workbook, 1995, p. 8.

company, because the company can be relied upon to provide the goods when needed. When stockholders are satisfied with the operations of the business, they are more confident in investing additional funds for expansion, which means that the growth of the business is promoted and that it will be capable of increased profitability. Although the society at large may not be the direct customers of the business, its members can become good advertisers when they are treated well. Competitors should not be seen as threats, but as partners. If this happens, there will be cooperation and collaboration. The business manager should also work closely with the government. The more the government is helped, the more it will extend help. And lastly, by being faithful to the church, the manager ensures that the Almighty God will bless the business.

In a nutshell, by being ethical, the manager becomes socially responsive and financial objectives can be more easily attained. Not only do managers achieve their objectives, but other stakeholders are satisfied as well.

PRESUMPTIVE TAXATION AND TAX COMPLIANCE IN UGANDA: INCORPORATING ETHICAL ASPECTS

ARTHUR SSERWANGA AND THOMAS WALTER

1. INTRODUCTION

There are many ways of taxing individuals and corporations. Developed countries tend to tax income according to relatively complex structures, utilising sophisticated accounting and record keeping.¹ Such methods of taxation yield little success in developing countries, where small and informal businesses form sizeable parts of the economies.

In Uganda, a number of Small Business Enterprises (SBEs) remain outside the tax system through tax non-compliance. It is easier for SBEs to remain outside the tax net, because they can remain inconspicuous to the tax administration. Furthermore, SBEs find it easier to slip out of the tax collectors' net, because the enforcement costs would exceed the potential tax revenue collected from the SBEs.²

Complicated and administratively burdensome tax systems further discourage SBEs' compliance with the tax laws. Complicated tax systems make it expensive for SBEs to act in good faith in terms of tax compliance, due to the costs associated with record-keeping and the need for specialized information to comply with complex tax laws. At the same time, SBEs find it beneficial to take advantage of loopholes in the tax system in order to minimise their tax payments, hence the non-compliance.³

The above problems, associated with the complicated taxation method, led to the introduction of the presumptive income tax, to streamline income tax collection and widen the income tax base in

1 S. WALLACE, 'Imputed and Presumptive Taxes: International Experiences and Lessons for Russia', International Studies Program Working Paper No. 02-03, Georgia State University, March 2002.

2 B. GAUTHIER and R. REINIKKA, 'Shifting Tax Burdens through Exemptions and Evasion: An Empirical Investigation of Uganda', World Bank Policy Research Working Paper No. 2735, 18 December 2001.

3 WALLACE, *Imputed and Presumptive Taxes*.

Uganda.⁴ Previously non-taxable SBEs are now brought to the tax bracket using the presumptive method, unless they opt to file a return.⁵

The concept of presumptive income taxation refers to any system of taxation which levies a tax on an assumed or presumptive basis without going through the process of computation normally used to determine the total taxable income of a person before levying income tax.⁶ Presumptions are used to supplant an entire tax base, or at least a large proportion of a tax base.⁷ Presumptive taxation takes various forms, the most common method being the determination of tax as a percentage of gross turnover. This is the method also applied in Uganda for taxing the incomes of SBEs.

Theoretically, it becomes more difficult to “disappear” from the view of tax administrators by going into the shadow or underground economy. Therefore, presumptive taxation is seen as a measure that reduces tax non-compliance. Non-compliance is a critical societal phenomenon, especially in developing countries, which is difficult to explain concretely. Questions and theories about non-compliance are as old as taxes themselves and will remain an area of discovery as long as taxes exist.⁸

The purpose of this study is to explore through secondary research the determinants of tax non-compliance, to investigate the potential influence of ethics on tax compliance, and to provide grounding for future empirical investigations into tax compliance.

2. CONCEPTUAL FRAMEWORK

The conceptual framework draws upon the works of Gauthier and Reinikka,⁹ Park, Hyun and Yoo,¹⁰ Franzoni,¹¹ Satish and Gray,¹² Kaplan

4 A. SSERWANGA, ‘Presumptive Income Tax Law and the Quality of Financial Reporting’, unpublished paper, 2002.

5 D. CHEN and R. REINIKKA, ‘Business Taxation in a Low-Revenue Economy: A Study on Uganda in Comparison with Neighbouring Countries’, World Bank African Region Working Paper No. 3, 1999.

6 S. DASTUR, ‘The Indian Methodology’, in Reuven S. Avi-Yonah, ed., *Presumptive Income Taxation: Proceedings of a Seminar held in New Delhi, in 1997, during the 51st Congress of the International Fiscal Association*, The Hague, Kluwer Law International, 1998.

7 R. S. AVI-YONAH, *Presumptive Income Taxation*.

8 B. TORGLER, ‘Vertical and Exchange Equity in a Tax Morale Experiment’, WWZ-Discussion Paper 02/02, Wirtschaftswissenschaftliches Zentrum der Universität Basel, 2002.

9 GAUTHIER and REINIKKA, ‘Shifting Tax Burdens through Exemptions and Evasion’.

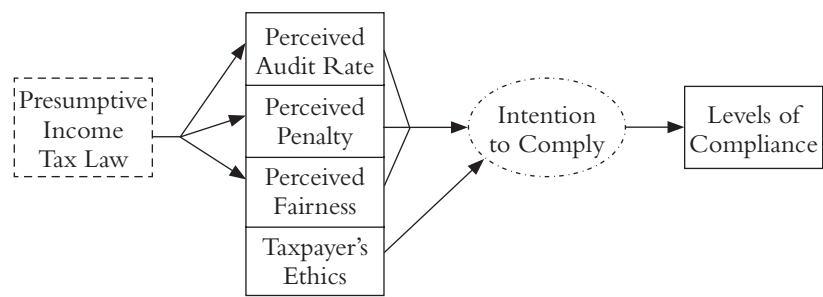
10 C.-G. PARK, J. K. HYUN, and I. YOO, ‘The Determinants of Tax Compliance by Experimental Data: A Case of Korea’, data.vatt.fi/iipf2002/members/papers/Hyun_Park_Yoo.pdf.

11 L. A. FRANZONI, *Tax Evasion and Compliance*, Bologna: University of Bologna, 1999.

12 S. C. WADHAWAN and C. GRAY, ‘Enhancing Transparency in Tax Administration: A Survey’, African Economic Policy Discussion Paper No. 3, July 1998.

and Henderson,¹³ and Slemrod,¹⁴ with adjustments to fit Uganda’s tax system. The following conceptual framework is used to guide the study.

Figure 1: Conceptual Model



Sources: Gauthier and Reinikka; Park, Hyun and Yoo; Franzoni; Satish and Gray.

3. LITERATURE REVIEW

3.1. SMALL BUSINESS ENTERPRISES

Despite the lack of consensus in the accounting profession and the theoretical taxation literature on the definition of SBEs,¹⁵ it is agreed that small-scale enterprises are engines of growth and development in developed and less developed countries. The definition of SBEs varies and is usually based on the number of employees, turnover or value of assets. These size definitions are to some extent arbitrary, and should be interpreted flexibly in the light of the actual circumstances in any country. One should not be overly concerned about the lack of consistency in the definition of SBEs, since the differences are not consequential to this research. For purposes of this study, however, SBEs are defined as those resident business units with a gross annual turnover of not more than fifty million Uganda shillings (c. US\$ 25,000). This definition includes

13 S. E. KAPLAN and B. C. HENDERSON, ‘An Examination of the Role of Ethics in Tax Compliance Decisions’, paper presented at the Annual Meeting of the American Accounting Association, San Antonio, Texas, 14–17 August 2002.

14 J. SLEMRD, ‘The Return to Tax Simplification: An Econometric Analysis’, Working Paper No. 1756, Cambridge, Massachusetts: National Bureau of Economic Research, 1985.

15 D. HACKSTON and M. J. MILNE, ‘Some Determinants of Social and Environmental Disclosures in New Zealand Companies’, *Accounting, Auditing & Accountability Journal* 9, 1 (1996), pp. 77–108.

any business, irrespective of number of employees or amount of capital invested, but excludes professional and public utility businesses.¹⁶

3.2. PRESUMPTIVE INCOME TAX

One of the unique characteristics of SBEs in Uganda is the high non-compliance rate that has persisted irrespective of the previous tax reforms. In Uganda, SBEs seem to reduce their tax payments by non-compliance.¹⁷ This problem led to the 1997 income tax reforms, which gave birth to presumptive income taxation in Uganda, in order to streamline income tax collection¹⁸ and widen the income tax base.¹⁹

The substantial size of the informal sector in developing countries like Uganda severely limits the reach of the income tax. The scope of the income tax is also restricted by measurement difficulties governed by lack of accounting information due to poor financial reporting.²⁰ Administering income taxation is difficult to accomplish in developing countries, where many potential taxpayers are not enmeshed in the set of interlocking recorded transactions.²¹

Presumptive income tax refers to a method of collecting income tax from taxpayers by using other recognized variables, such as gross annual turnover, and not financial accounting reports.²² A percentage of sales or other features of the business is taken to assess the presumptive income tax liability. The presumptive method applies to resident, non-professional businesses with gross annual turnover not exceeding fifty million Uganda shillings.

3.3. NEED FOR PRESUMPTIVE TAXATION

Presumptive or imputed taxes may reduce tax evasion by reducing the compliance burden for taxpayers and reducing the cost of enforcement by the tax administration. Such taxation may also encourage new enterprises to start off as legitimate taxpaying enterprises. In many countries, a

16 REPUBLIC OF UGANDA, *Income Tax Act 1997*, Entebbe: Uganda Public Publishing Corporation, 1997.

17 GAUTHIER and REINIKKA, 'Shifting Tax Burdens through Exemptions and Evasion'.

18 REPUBLIC OF UGANDA, ed., *A 1996 Updated Industrial Census*, Entebbe: Department of Statistics, 1996.

19 R. BIRD, *Tax Policy and Economic Development*, Baltimore and London: The Johns Hopkins University Press, 1992.

20 W. THIRSK, 'Lessons from Tax Reform: An Overview', World Bank Policy, Research, and External Affairs Working Paper No. 576, January 1991.

21 BIRD, *Tax Policy and Economic Development*.

22 REPUBLIC OF UGANDA, *Income Tax Act 1997*.

simplified system of taxation is the only reasonable, cost-effective way to obtain some level of taxes from certain types of taxpayers. Typically, tax evasion is very high among small enterprises and sole proprietorships, and many of the simplified tax structures are developed with these taxpayers in mind. If presumptive or imputed methods of taxation bring more taxpayers into the tax net, the perceived fairness of the system increases, which has long-term benefits to a country.²³

3.4. TAX NON-COMPLIANCE

Tax non-compliance or evasion occurs when taxpayers deliberately fail to comply with their tax obligations, resulting in revenue losses that may cause serious damage to the proper functioning of the public sector.²⁴ Although tax compliance is a major concern to all governments and analytical investigation of non-compliance is as old as taxation, the problem still raises concerns for tax administrators.

Compliance with the tax law typically means truthful reporting of the tax base, correct computation of the liability, timely filing of the return and timely payment of the amount due. Most evaders either do not declare their liability at all or declare it only in part.²⁵ Tax compliance in respect to income tax is defined as the ratio of declared income to actual income.²⁶

As a complex phenomenon, tax non-compliance can be addressed from a variety of perspectives. Taxpayers' stance is influenced by many factors, including their disposition towards public institutions, the perceived fairness of the tax, prevailing social norms and morals, complexity of tax laws and regulations, audit rates, and penalties. Without questioning the relevance of ethical and sociological motivations, the analysis of non-compliance has focused on how non-compliance or evasion is deterred through detection and sanctions,²⁷ an approach that cannot satisfactorily explain non-compliance among taxpayers.

In economic terms, evasion problems originate in the fact that the variables that define the tax base (income) are often not observable. That is, an external observer cannot usually see the actual magnitude of an individual's tax base and, hence, cannot know his true tax liability.

23 WALLACE, *Imputed and Presumptive Taxes*.

24 FRANZONI, *Tax Evasion and Compliance*.

25 *Ibid.*

26 PARK, HYUN, and YOO, 'The Determinants of Tax Compliance by Experimental Data: A Case of Korea'.

27 FRANZONI, *Tax Evasion and Compliance*.

Sometimes, this knowledge can be obtained by means of costly audits. In other cases, as when it is related to cash payments, the tax base cannot be verified at all. Taxpayers can take advantage of the imperfect information about their liability and elude taxation.²⁸

The thesis is that the taxpayer's behaviour can be fruitfully seen as the result of a rational calculus, a careful assessment of the costs and benefits of non-evasion, since, even with the simplest tax and enforcement systems, the incentives to comply are far from obvious.

3.5. NON-COMPLIANCE RISK

A rational taxpayer regards concealed income as a risky asset, contingent upon whether the evasion will be detected, and maximises his or her expected utility. The variables include detection probability, penalties, degree of risk aversion, and extent of honesty.²⁹

Non-compliance can, therefore, be perceived as a portfolio allocation problem, i.e. the taxpayer must decide what portion of income to invest in the risky activity labelled tax evasion and what to declare to the tax authorities for assessment. If the taxpayer does not wish to undertake any risk, then he or she declares the right amounts of income. Otherwise, he or she reports only a fraction of it and bears the risk of being caught and paying a fine or penalty.³⁰

Therefore, it is important to investigate further why some people comply, while others do not. This is a rational decision made under conditions of uncertainty. Cheating on taxes is a gamble, paying lower taxes with consideration of the probability of detection.³¹

3.6. COMPLEXITY OF THE TAX LAW

Complex tax laws and regulations, followed by high compliance costs, have for long been identified as causes of non-compliance, especially among small and medium enterprises the world over. The high compliance costs, which result from complex tax schedules and rules, not only tilt the cost-benefit analysis towards evasion, but may also generate resentment, weakening taxpayers' moral consciences or even prompting them to evade. When tax legislation is very complex, taxpayers often hire tax experts, who have great power to influence the taxpayers' attitude towards evasion, using their superior knowledge of enforcement

28 *Ibid.*

29 WADHAWAN and GRAY, 'Enhancing Transparency in Tax Administration'.

30 FRANZONI, *Tax Evasion and Compliance*.

31 TORGLER, 'Vertical and Exchange Equity in a Tax Morale Experiment'.

patterns.³² Therefore, legislators and tax administrators should examine the vicious circle of countering evasion by increasing the complexity of tax regulations.

On the other hand, Slemrod puts the above assertions on complexity of tax regulations into question. He asserts that, though complexities in the tax law are not called for, the best tax system is not necessarily the simplest one. Analysis of any tax simplification proposal should consider its advantages and related problems in respect to tax compliance.³³

In Uganda, the presumptive income tax law was established, among other reasons, in order to simplify the tax regulations for small business enterprises. Among other issues, SBEs using the presumptive income tax were no longer under obligation to keep proper books of accounts, since accounting profits or income were no longer the basis for assessing their tax liabilities. This reduced the cost of complying with the tax regulations for SBEs in Uganda, which hopefully would have lead to significant improvement of compliance levels. However, the record and accounts kept by a business increase the visibility of offences.³⁴ In a technical sense, some form of visibility makes it easier both to observe the real situation (financial position and performance) and behaviour (intended or actual compliance) of the taxpayer. Some form of record keeping serves as a legal evidentiary function. As a result, non-compliance is not easily detected without proper books of accounts.

Presumptive taxation is a case in which statistical estimates or proxies are used to define the tax obligation. It is important to note that simplifications and reductions of compliance costs will ordinarily be achieved only at the expense of reduced ability to discriminate among taxpayers for purposes of equity.³⁵ As a result, many large companies disguise themselves as small, in order to pay lower taxes using the presumptive method. After all, books of accounts are no longer a prerequisite for tax assessment.

3.7. FAIRNESS

Tax evaders justify their cheating by the belief that everyone else does the same thing and that the benefits they receive from their government

32 FRANZONI, *Tax Evasion and Compliance*.

33 SLEMROD, 'The Return to Tax Simplification'.

34 R. A. KAGAN, 'On the Visibility of Income Tax Law Violations', in J. T. SCHOLZ and J. A. ROTH, eds., *Taxpayer Compliance: Social Science Perspectives*, Philadelphia: University of Pennsylvania Press, 1989.

35 FRANZONI, *Tax Evasion and Compliance*.

fall below their share of the tax burden.³⁶ Previous studies have reported a relationship between perceptions of inequity and tax evasions or non-compliance.³⁷ Scholars suggest that lack of equity in any exchange relationship (e.g. between taxpayers and government) creates a sense of distress and anger. Tax non-compliance is seen as a reaction by the taxpayer, aimed at restoring fairness and equity.³⁸ Smith hypothesises that taxpayers feel cheated, if they believe that their tax burden is not spent well by their governments. Taxpayers are likely to comply, if the exchange between the paid tax and the government services are considered equitable.³⁹

Alm, McClelland, and Schulze⁴⁰ and Alm, Jackson, and McKee⁴¹ stress the importance of taxpayers' perception on the ultimate destination of tax money in inducing voluntary compliance. If taxpayers acknowledge the fact that provision of public goods is financed by tax revenue, then they are more likely to comply with the tax requirements. The incentive to free-ride in the provision of public goods discourages compliance.⁴²

The concept of fairness can further be explained using the theory of equity. Equity theory is important when analysing the determinants of tax non-compliance, because it hypothesises that satisfaction and behaviour are related.⁴³ Taxpayers perceive a relationship with the state or government as one of exchange. The taxpayer can compute the fair terms of trade between his private consumption and government provision of public goods and services. Taxpayers wish to evade taxes, if the terms of trade differ from computed fair terms, in order to re-establish fairness, but are constrained by the risk of getting caught.⁴⁴ To a taxpayer, therefore, evasion or non-compliance is a means of restoring equity in his relationship with the government.

36 WADHAWAN and GRAY, 'Enhancing Transparency in Tax Administration'.

37 M. W. SPICER, *A Behavioural Model of Income Tax Evasion*, Ph.D. Dissertation, Ohio State University, 1974; Y. SONG and Y. E. YARBROUGH, 'Tax Ethics and Taxpayer Attitudes: A Survey', *Public Administration Review* 38 (1978), pp. 442-57.

38 TORGLER, 'Vertical and Exchange Equity in a Tax Morale Experiment'.

39 K. W. SMITH, 'Reciprocity and Fairness: Positive Incentives for Tax Compliance', in J. SLEMROD, ed., *Why People Pay Taxes: Tax Compliance and Enforcement*, Ann Arbor: University of Michigan Press, 1992.

40 J. ALM, G. H. MCCLELLAND, and W. D. SCHULZE, 'Why Do People Pay Taxes?' *Journal of Public Economics* 48 (1992), pp. 21-48.

41 J. ALM, B. JACKSON, and M. MCKEE, 'Estimating the Determinants of Taxpayer Compliance with Experimental Data', *National Tax Journal* 45 (1992).

42 FRANZONI, *Tax Evasion and Compliance*.

43 T. R. TYLER and H. J. SMITH, 'Social Justice and Social Movements', in D. T. GILBERT, S. T. FISKE and G. LINDZEY, eds., *The Handbook of Social Psychology*, 4th Ed., Vol. II, Boston: McGraw Hill, 1998, pp. 58-99.

44 FRANZONI, *Tax Evasion and Compliance*.

3.8. TAX AUDITS

Tax audits are seen by many scholars as a deterrent to non-compliance. The argument is that the higher the rates of tax audits, the lower the levels of tax non-compliance. Tax collectors make use of tax audits in the form of desk or field operations, or a combination of the two. In Uganda, however, predetermined audit criteria do not exist. A firm's compliance record and the size of the firm are important determinants of the audit operations. Indeed, the frequency of audits tends to increase with firm size,⁴⁵ leaving SBEs relatively free from threats of audits and giving them a licence to evade taxes.

High auditing frequency in Uganda partly indicates a serious lack of voluntary compliance and a low level of mutual trust between the tax authority and taxpayers.⁴⁶ The anomaly in Uganda, however, is that these audits are not regularly performed on SBEs, which are most likely to evade taxes, but concentrate on large companies. Many studies substantiate the theory that a higher audit rate leads to more compliance.⁴⁷ Nevertheless, a number of studies show that the impact of audit rates on compliance appears to be small and non-linear.⁴⁸ Conversely, a few studies find no effect between the two variables.⁴⁹

Various empirical findings pronounce that taxpayers who perceive the highest probability of detection have a high compliance level. Taxpayers initially overestimate the detection probabilities and evaders later lower their estimates, if they are not detected. Therefore, reluctance on the part of tax collectors to carry out tax audits releases a spiral of non-compliance among taxpayers.⁵⁰

45 GAUTHIER and REINIKKA, 'Shifting Tax Burdens through Exemptions and Evasion'.

46 CHEN and REINIKKA, 'Business Taxation in a Low-Revenue Economy: A Study on Uganda in Comparison with Neighbouring Countries'.

47 P. J. BECK, S. J. DAVIS, and W. JUNG, 'Experimental Evidence on Taxpayer Reporting Behaviour', *The Accounting Review* 66 (1991), pp. 535-58; ALM, JACKSON, and MCKEE, 'Estimating the Determinants of Taxpayer Compliance with Experimental Data'.

48 ALM, MCCLELLAND, and SCHULZE, 'Why Do People Pay Taxes?'

49 M. W. SPICER and J. THOMAS, 'Audit Probabilities and the Tax Evasion Decision: An Experimental Approach', *Journal of Economic Psychology* 2 (1982), pp. 241-45; G. JACKSON and S. M. JONES, 'Salience of Tax Evasion Penalties versus Detection Risk', *Journal of the American Taxation Association* (1985), pp. 7-17; Y. BENJAMIN and S. MAITAL, 'Optimal Tax Evasion and Optimal Tax Evasion Policy: Behavioural Aspects', in W. GAERTNER and A. WENIG, eds., *The Economics of the Shadow Economy*, Berlin: Springer-Verlag, 1985, pp. 245-64.

50 FRANZONI, *Tax Evasion and Compliance*.

3.9. PENALTIES

The evidence regarding tax penalties and compliance is also mixed. Quite a number of studies show a positive relationship between penalties and compliance.⁵¹ The findings of the above studies show that the increase in penalties is positively related to tax compliance.

A compliance strategy solely based on detection (audit) and punishment (penalties) may be a reasonable starting point, but not a good ending point. There is need for a multi-faceted approach to reduce non-compliance. Explaining and reducing tax non-compliance requires recognising the numerous factors that provoke taxpayers' behaviour. Until this effort is made, it is unlikely that we will come closer to understanding the puzzle of tax non-compliance.

One of the main prescriptions for curbing non-compliance is increasing penalties or fines. Given that an increase in audit rates is not likely to require more government funds, but increases in penalties yield more revenue for government, many policymakers and tax administrators in developing countries favour the action of increasing penalty rates, as a means of reducing non-compliance.

3.10. ETHICS

The findings by scholars on the deterrents of non-compliance are mixed and not yet conclusive. Whether a firm does or does not comply is a function not only of audit rate, penalty rate, and fairness, but also of an individual's willingness to comply or evade. It is clear by now that real compliance decisions are much more complex than those depicted in the standard economic models, in that taxpayers are subject to a wide variety of sociological and ethical factors. A study of tax reporting behaviour by Schwartz and Orleans aroused early interest in the role of ethics in tax compliance.⁵² In this study, substantially less non-compliance occurred in a group of subjects, who, prior to tax reporting, answered a series of questions that highlighted social commitment aspects of tax compliance.⁵³

51 JACKSON and JONES, 'Salience of Tax Evasion Penalties versus Detection Risk'; BECK, DAVIS, and JUNG, 'Experimental Evidence on Taxpayer Reporting Behaviour'; ALM, JACKSON, and McKEE, 'Estimating the Determinants of Taxpayer Compliance with Experimental Data'; ALM, McCLELLAND, and SCHULZE, 'Why Do People Pay Taxes?'

52 SCHWARTZ and ORLEANS, 'On Legal Sanctions', *University of Chicago Law Review* 34 (1967), pp. 274-300.

53 KAPLAN and HENDERSON, 'An Examination of the Role of Ethics in Tax Compliance Decisions'.

This approach is consistent with Tittle, who asserts that a commitment to follow tax law is influenced by commitment to obey laws in general.⁵⁴

Social norms regarding taxation play a vital role in determining the taxpayers' compliance behaviour,⁵⁵ which calls for investigation of social norms and tax compliance in different tax jurisdictions, to confirm this thesis. Putting more emphasis on morality (ethics) can enable us to explain better the non-compliance issues in taxation.⁵⁶ A common finding in academic research is that the ethical and moral beliefs of a taxpayer are associated with tax non-compliance.⁵⁷

The role of moral philosophy in the formation of perceptions about non-compliance was also examined by Arrinton and Reckers.⁵⁸ Using a questionnaire developed by Forsyth,⁵⁹ they assessed taxpayers' ethical perceptions, in terms of universalism and idealism.

Various scholars assert that taxpayers who do not view tax evasion or non-compliance as ethically wrong were less likely to comply with the tax regulations.⁶⁰ Increase in tax knowledge and information results in taxpayers judging the crime of their tax non-compliance as more serious than before.

Kaplan and Henderson stress that when facing a tax compliance scenario, taxpayers' intended reporting behaviour is a function of ethical evaluations. Taxpayers with low moral reasoning exhibit more non-compliance intentions than those taxpayers with a high moral reasoning.⁶¹

Grasmick and Scott report a significant and positive association between compliance and a stronger belief that tax cheating is always wrong.⁶² Threats of shame associated with non-compliance reduce the

54 C. TITTLE, *Sanctions and Social Deviance: The Question of Deterrence*, New York: Praeger, 1980.

55 J. ALM, I. SANCHEZ and A. DE JUAN, 'Economic and Noneconomic Factors in Tax Compliance', *Kyklos* 48 (1995), pp. 3-18.

56 TORGLER, 'Vertical and Exchange Equity in a Tax Morale Experiment'.

57 KAPLAN and HENDERSON, 'An Examination of the Role of Ethics in Tax Compliance Decisions'.

58 C. E. ARRINTON and P. M. J. RECKERS, 'A Social-Psychological Investigation into Perceptions of Tax Evasion', *Accounting and Business Research* 16 (1985), pp. 163-76.

59 D. FORSYTH, 'A Taxonomy of Ethical Ideologies', *Journal of Personality and Social Psychology* 16 (1980), pp. 175-84.

60 P. M. J. RECKERS, D. L. SANDERS and S. J. ROARK, 'The Influence of Ethical Attitudes on Taxpayer Compliance', *National Tax Journal* 47 (1994), pp. 825-36.

61 KAPLAN and HENDERSON, 'An Examination of the Role of Ethics in Tax Compliance Decisions'.

62 H. G. GRASMICK and W. J. SCOTT, 'Tax Evasion and Mechanisms of Social Control: A Comparison with Grand and Petty Theft', *Journal of Psychology* 2 (1982), pp. 213-30.

probability of tax evasion or non-compliance.⁶³ They show shame and embarrassment, with the added potential role of religion, as a sanctioning system. They prove that shame is associated with private religious identity, while on the other hand embarrassment is associated with public religious identity. However, both shame and embarrassment regarding tax non-compliance are associated with reduced levels of inclination to cheat on a taxpayer's taxes.

4. CONCLUSION

The foregoing offers an analytical framework for examining some salient aspects of tax non-compliance in Uganda. To date, most of the studies have focused on penalties, audits, and fairness as the crucial determinants of non-compliance. Efforts must also be directed towards the ethical and moral issues of taxpayers.

Non-compliance is still a complex phenomenon that cannot be eradicated by partially diagnosing its determinants and ignoring the role of ethics. Ethics play an important role in compliance, though one often ignored by public and tax policy. As theoretical analysis proceeds, empirical research into the relationship between ethics and non-compliance in developing countries needs to be undertaken to find remedies to tax non-compliance.

63 H. G. GRASMICK and R. J. BURSICK, 'Conscience, Significant Others and Rational Choice: Extending the Deterrence Model', *Law and Society Review* 24 (1990), pp. 837-61.

MANAGEMENT ETHICS AND THE REALITY OF NEGATIVE ATTITUDES IN NIGERIA'S PUBLIC EMPLOYMENT SECTOR

V. T. JIKE

1. INTRODUCTION

Everywhere in Nigeria, the urban employment sectors, especially the public sector of the nation's incipient capitalist economy, are facing a severe crisis of survival and sustainability. Attitudes towards work are overwhelmingly negative and have steadily ebbed over the years, as a result of the pervasively diminished collective confidence in any institution in the public realm. The tempo of industrial activities, hitherto frenetic, has substantially declined in all but the oil and gas sector. Manufacturing concerns that once thrived and contributed immensely to the gross domestic product of the nation have been displaced and sidelined. The downturn in the fortunes of manufacturing concerns has had a corollary negative impact on several warehousing spaces, which, in the absence of finished goods, have been converted into places of worship, especially by churches in their systematic proselytising mission to win new converts to the Christian faith.

Wholesale negative attitudes in the public sector and the collapse of the manufacturing sector are largely traceable to a range of socio-historical and economic factors, among which are the very fact of colonialism, which was perceived to be exploitative and inimical to the collective interest of the indigenous peoples. Thus began the perceived psychological schism between US and THEM.¹ US represented the indigenous peoples, dispossessed of their lands, lacking in capital and psychologically poised to restore equity with THEM, the colonisers, whose public-sector bureaucracy represented the most visible symbol of colonial subjugation and exploitation. Pioneer indigenous workers went into the public sector bureaucracy with a rigid sense of divided loyalty, with preponderant concern and commitment to the collective interests of their local communities. This dichotomous perception between US and THEM has lingered on until the present era, where it has transposed into various social malaises, such as corruption, favouritism, outright theft and several dimensions of gross misconduct and unethical practices.

Ethics, or the absence of ethics, may actually be in the eyes of the beholder. For what is considered unethical in Nigeria's public sector may actually be construed by those in the larger society as proper conduct. For example, a typical incidence of corruption, which should be sanctioned, might turn out to be a veritable source of controversy between one ethnic group and the other, with each accusing the other of foul play, vindictiveness, or even vendetta. This perhaps represents a fairly solid historico-theoretical premiss, against which to examine management ethics and the reality of negative attitudes in Nigeria's public employment sector.

It is pertinent to add that globalisation has had a mixed effect on the economies of African countries. Africa's over reliance on agricultural raw materials and the vagaries of market forces in the West have not helped in any way to resuscitate the comatose economies of African countries.

More fundamentally, there are compelling reasons to believe that, apart from the aforementioned exogenous factor of colonialism, globalisation, etc., several endogenously induced factors, including ethnicity, nepotism, religion and political allegiance, have profoundly impacted the trend of management ethics in Nigeria's public employment sector.

2. MANAGEMENT ETHICS AND NEGATIVE ATTITUDES

Functionally acceptable and proper management ethics are difficult to enforce in Nigeria's public sector organisations, because of a combination of factors, which include the historicity of the emergence of the bureaucratic entity, especially the red tape, which has steadily become a ready ploy for circumventing laid-down procedures and orchestrating unholy compromises.

Part of the lingering problem of Nigeria's corporate world is the negative attitude of the citizenry to public work, infrastructures, etc. Negative attitudes can be expressed in a wide variety of behavioural possibilities, including but not restricted to non-commitment to the job, lack of identification with the job, dissatisfaction with the job, embezzlement of public funds, arson (usually to cover-up corruption and fraud in public offices) and undue blame of the organisational structure for any shortcoming that may have arisen from personal inadequacies.²

Although negative attitudes may mean any of the aforementioned possibilities, this paper intends to locate the ethical problems of management in contemporary Nigeria in the wider social environment,

2 Jike, 'US and THEM Syndrome'.

where contending social forces determine, to a large degree, the level or extent of commitment to work. This chapter argues that extra-organisational factors determine, to a large extent, the leverage of attitudinal dispositions and the commitment of workers to their work.

Generally, negative attitudes to public organisations have their roots in the peculiar circumstances of the colonial establishment. The cultural differences between imperial Britain and pre-colonial Nigeria inevitably found expression in the organisational structure introduced by the colonialists. This created profound and lingering adaptation problems for the indigenous peoples. Warmington, for example, notes that difficulties of adaptation on the part of labour created obstacles to the progress of industrialisation in African countries.³ The alien characteristics of colonial organisations invoked a regulative response in indigenous people and attempts were made to undermine the colonial system. In this regard, some indigenous peoples attempted to infiltrate the alien organisation in order to plunder it for the benefit of the communities to which they had their primary loyalties. This general perception of government establishments as alien and, therefore, targets to be plundered has persisted forty-three years after independence.

The persistence of the US-and-THEM syndrome has thus become the bane of Nigeria's public organisations. This syndrome partly explains why, for example, students in institutions of higher learning can brazenly embark on an orgy of wanton destruction of public property, which is generally regarded as a symbol of the oppressor class. The oppressor class in this case is no longer the colonialist, but the indigenous bureaucratic or political elites, who have stepped into the shoes of the departing colonialists. These so-called indigenous elites have embraced an ostentatious lifestyle (generally epitomised by exorbitant and exotic cars, magnificent mansions, expensive clothing, etc.). This has made them rather unpopular with the citizenry. They are generally perceived to represent their selfish interests, rather than the yearnings of those they feign to represent. Because of the lack of trust and confidence in these elites, anger against these functionaries and the organisations they represent may take one of several forms, e.g. negative attitudes towards public work, vandalism of public property (especially during students riots), arson (which is typified by the inferno that recently engulfed the Nigeria National Petroleum Company office at Falomo, Ikoyi), etc.

Nigerians, both at home and at work, are obsessively concerned about what they can obtain from government, without equally bothering

3 F. A. WELLS and W. A. WARMINGTON, *Studies in Industrialization: Nigeria and the Cameroons*, Ibadan: Ibadan University Press, 1962.

about their duties to the state. There is a mad rush among Nigerians to slice a chunk of the national cake. Consistent with this line of argument, the Nobel Laureate, Wole Soyinka,⁴ has noted that the attainment of independence was nothing but a *danse macabre* to get a slice of the national cake.⁵

Part of the reason for the incessant military coups in Nigeria from the mid-1970s to the early-1990's was the need by the military to clear, as it were, the Augean stable of corruption and unethical management practices in Nigeria's public service. But, how well, we may ask, did the military succeed in ridding the public service of corruption? The military has done abysmally badly in this regard. It is now a platitude that the first military regimes in 1966, and to some extent subsequent military administrations, merely exacerbated the problems they intended to ameliorate. The tenure of Yakubu Gowon as head of state (1966-1976), for example, witnessed an unprecedented spate of corruption and other indices of negative attitudes. The Nigerian civil war years (1967-1970) and the attendant euphoria of the oil boom epoch distracted attention from the havoc (in terms of corruption, dereliction of duty, non-commitment to jobs) being wreaked on public organisations.

3. PUBLIC SECTOR REFORM MEASURES

There were also remarkable moves and efforts to halt the negative drift in the country's moral latitude. One such move was initiated by Major General Murtala Mohammed as head of state (1976), who personally initiated a reform programme in the country's public service by firing, en masse, those people considered inefficient and unproductive in their jobs. As well intentioned as Murtala's reform programme appeared, there was a serious flaw of how to obtain a uniform yardstick of efficiency (or lack of it) and how to apply such a measure across the board, irrespective of the culprit's social status and connections.

Top government officials soon converted Murtala's reform package into a weapon of personal vendetta by submitting names of hardworking and dedicated public officers against whom they had personal grievances. For example, the dismissed and later reinstated socialist-inclined lecturers of the University of Ibadan in 1978 were an indication of the number of innocent and hardworking public officials who may have been flushed out of the public service on trumped up charges.

4 Wole SOYINKA, *A Play of Giants*, 1984.

5 *West Africa Magazine*, 27 August 1984.

Major General Olusegun Obasanjo followed the path of reform that had been introduced by the late Major General Murtala Mohammed. Obasanjo attempted to rid the public service of corrupt and inefficient officials in 1976. Again, like his predecessor, the serious flaw in his reform programme was the ambivalence surrounding the determination of efficiency, or lack thereof. The determination of efficiency was left to the predilections of a few top officials, who could and, in fact, did manipulate the reform package to suit their personal whims. Credit, nonetheless, should be given to Generals Murtala Mohammed and Olusegun Obasanjo for diagnosing the ubiquity of negative attitudes towards public work. Although they diagnosed the problem, these leaders advanced policies that were directed mainly at the symptoms, rather than the cause(s) of the problem. These leaders assumed, very erroneously, that with the dismissal of a few overtly inefficient or corrupt officials, the broad mass of public workers would adopt a much more positive attachment or commitment to their jobs. In the Jaji Declaration of 1977, for example, General Obasanjo noted, 'We started with retrenchment from the public sector with the hope that new lessons will be learnt and new attitudes cultivated.'

Although President Shehu Shagari, the civilian president of the Second Republic, and his retinue of flamboyant and extravagant ministers were found by military tribunals to have brought the nation to the lowest ebb of depravity, the president at repeated intervals emphasised the need to rid the country's public service of the prevailing lackadaisical attitude and corruption.⁶

Major General Mohammed Buhari, who removed President Shehu Shagari in a military coup d'état on 31 December 1983, was equally cognizant of the pervasive negative attitudes towards public work. In a bid to solve the problem, Major General Buhari launched a social campaign named the War against Indiscipline (WAI). This was a somewhat aggressive re-socialisation programme intended to instil positive attitudes in public workers. Similarly, Major General Ibrahim Babangida (Rtd.), who ousted Major General Buhari in a coup d'état in 1985, described the country's public service as a 'let down'. The President maintained that the public service had witnessed the influx of some individuals who were incapable and undisciplined. President Babangida further regretted that 'many civil servants had encouraged corruption, fraud and abuse of office'. In a speech at the opening of a seminar on the national question in Nigeria, President Babangida stated that 'people have been made to believe that it is only when someone from their own ethnic group holds

6 University of Jos, Nigeria, Commencement Address, 1981.

an elective office that their lot can improve, irrespective of the personal qualities of the individual'. Continuing, the president noted that it was unfortunate that individuals in government had acted and exercised power in a manner to lend credence to this belief.⁷

Thus, it is a platitude that the Nigerian public service is inundated with unethical and corrupt practices, and that workers have little commitment to the job. It is a place where officials wantonly enrich themselves with public money, without fear of being caught. The Minister for Mines and Power, Prof. T. David-West, wrote in the *Daily Times* of 26 July 1986:

Public office is often seen not as an opportunity for service but largely as an opportunity to build material empires at home and abroad, especially abroad. What is particularly frightening is that some would even go ahead and argue a so-called rational premise for this un-progressive ethic along the lines that you are a fool not to prepare for the rainy day.⁸

Continuing his criticism of the public service and particularly authenticating my previous claim of pervasive corruption in the public service, the Minister noted:

Nigeria is the only place where a top public officer, after raping the public treasury to administer to his personal fancies and antics, will unashfully tell the whole world that instead of the normal crime and punishment, he should be congratulated with national honours, decorated with accolades and showered with confetti.⁹

This paper has highlighted several indicators of negative attitudes of corruption, fraud, etc. It is pertinent to highlight the constraining features of public service bureaucracy, which has exacerbated unethical management practices and negative attitudes in Nigeria's public employment sector.

4. PUBLIC SECTOR MANAGEMENT AND BUREAUCRACY

The public sector is supposedly the engine room of the country's economic growth and development. Since it is the major employer of labour and the undisputed progenitor of industrial and technological change, the onus rests on the public sector to demonstrate exemplary managerial competence in order to align human and material resources to the grand supra-national objective of economic growth and development. Although public policy initiatives and programmes are some of the best in the abstract, the implementation of these policies and programmes

7 *The Punch*, Nigeria, 15 July 1986.

8 *Daily Times*, Nigeria, 26 July 1986.

9 *Ibid.*

has been bedevilled by a bureaucracy that is both anachronistic and impervious to new ideas.

Bureaucracy, as an implied theory of motivation, possesses features that are assumed to be sufficiently potent to motivate workers in the direction of organisational goals. The Nigerian bureaucracy was set up during the colonial era to facilitate colonial administration. Collecting revenue, maintaining law and order, and building a solid base for cash crop production were all tasks to which colonial bureaucracy was especially tailored.

Although colonial bureaucracy served those purposes very well, Nicolson has noted that 'Lugard's administration was characterised by excessive centralisation and the absence of delegated authority'.¹⁰ The excessive centralisation of the Nigerian bureaucracy begun by Lord Lugard and now perpetrated by Nigerians, in combination with other dysfunctions that characterise the Nigerian bureaucracy (e.g. red tape, rigidity, inability to use personal initiatives, etc.), contribute to unethical practices in this sector. Negative work attitudes are so pervasive that they have been likened to a cankerworm tearing the national fabric apart. Proposals to solve this problem have featured prominently in the speeches of various heads of state in Nigeria. For example, General Olusegun Obasanjo (Rtd.), in the famous Jaji Declaration of 1977, said:

This administration has tried to reshape and redirect the society since its inception in 1975. Although we have achieved a halt to the drift of the past, it was not yet a clean break. We started with retirements from the public sector with the hope that new lessons will be learned and new attitudes cultivated. The popular acclamation, which the exercise received from the public, accentuated our hopes, but after a short time, the hope receded.¹¹

In 1986, the regime of General Ibrahim Babangida (Rtd.) publicly called for the development of a new work ethic for public workers. Babangida's administration was quite broadminded in discussing the problems of bureaucracy. It even highlighted the constraint of red tape as one of the organisational vices that has literally crippled government establishments. Listing the number of constraints in the way of Nigeria's industrialisation, Anthony Kirk-Greene and Douglas Rimmer note:

Manufacturing seems peculiarly exposed to bureaucratic impediments with reference to industrial policies; the third national development plan categorically deplores unnecessary restriction and administrative bottlenecks; in particular, the multiplicity of authorities, from which various permits,

10 I. F. NICOLSON, *The Administration of Nigeria, 1900-1960*, Oxford: Clarendon Press, 1977, p. 218.

11 N. U. AKPAN, *Public Administration in Nigeria*, Ibadan: Longmans, 1982, p. 178.

licenses, etc. have to be assembled and they lack streamlined procedure for getting them.¹²

Some of the typical problems of the bureaucracy originate from its rigid structures. When individuals are unable to meet the rigid demands of the prevailing bureaucracy, they tend to cut corners and circumvent laid down procedures. This, perhaps, forms a major aspect of the explanation of the pervasive unethical practices in public sector organisations and parastatals.

The rigid structure and public bureaucracy affects rather adversely the welfare needs of public workers. This partly explains why workers in this sector sometimes look beyond the formal structure of the organisation to meet an unspecified range of welfare needs. This latter assertion leads us to an empirical study that was carried out to compare workers in (a) the private sector and (b) the public sector on the extent to which the organisations meet their welfare needs.

5. METHODS

A set of predominantly Likert-scale questionnaire instruments was administered to a randomly selected sample of 160 respondents, divided equally between private and public sector organisations. The sub samples in each divide were also stratified for sex and religion, to reflect the shades of diversity in the population of interest. The responses were subjected to an array of statistical tests, ranging from simple percentage distribution to the more complex analysis of variance and orthogonal contrast.

6. DATA ANALYSIS

Table I is a cross tabulation of workers' place of employment (private and public) by percentage scores on the extent to which workers' welfare was given priority consideration in the organisation. While 21.3% of private workers strongly agreed that workers' welfare was given priority consideration in their organisation, only 8.8% of public workers strongly agreed with the same proposition. Similarly, 63.7% of private workers agreed that workers' welfare was given priority consideration in their organisation, compared to only 32.5% of public workers. There is equally a sharp difference in the pattern of responses between private and public workers in the column of those workers who disagreed that workers' welfare was a priority issue in the organisation; only 2.5% of all private workers, as against 28.8% of public workers.

12 Anthony KIRK-GREENE and Douglas RIMMER, *Nigeria since 1970: A Political and Economic Outline*, London: Hodder and Stoughton, 1981.

The t-test of comparison between groups in Table III shows a highly significant probability level ($p < .000$) for both the pooled and separate variance estimates. This gives empirical support to the claim that a difference exists between both groups on the extent to which workers' welfare was given priority consideration.

The orthogonal contrast between both groups in Table IV also shows a highly significant probability level ($p < .000$) for both the pooled and separate variance estimates. The analysis of variance in Table V likewise shows a highly significant probability level ($p < .000$), which represents a significant difference between the six groups in the F5, 154 distribution.

7. CONCLUSION

Unethical practices are rife in Nigeria's public sector and this has militated against the overall objective of higher productivity. The empirical research, which compared employees of the private and public sectors on several attitudinal indices, found significant differences in employees' ethical orientation between the two sectors. Specifically, public workers decried the rigid organisational structures in the public sector that were not responsive to the dynamics of the larger society from which workers, as carriers of culture, originated. The empirical evidence is rather overwhelming that public sector organisations hardly serve the welfare needs of their workers. Little wonder, then, that the concept of owner value is perceived through the prism of a hitherto exploitative colonial machinery that serves to date as a continuing referent for conflict, both at the inter/intra-personal and at the management versus workers levels.¹³ Public sector organisations are detached from the larger society of which they are a distinct part and, because of this sense of organisational aloofness, many workers in the public sector do not have a sense of belongingness to the overall objective of public service in Nigeria.

By contrast, private sector organisations, especially those with sufficient economies of scale, have much wider leverage for social responsibility to both workers and the community. Workers' welfare receives due consideration and is met to a large extent, thus strengthening the reciprocal gesture of workers' commitment and support. This partly explains the wave of higher productivity and profitability in the private sector, even when public sector parastatals are virtually stagnated. It is no surprise, therefore, that the Federal Government of Nigeria has concluded plans to privatise many public companies and parastatals, including such

13 V. T. JIKE, 'Ethnic Militia and the Spectre of Social Disorganisation and Disunion in Contemporary Nigeria', in JIKE, ed., *Ethnic Militia and Youth Rebelliousness in Contemporary Nigeria*, Lagos: Niss Publication, 2002.

monopolies as Nigeria Electric Power Authority (NEPA), Nigeria Ports Authority (NPA), and Nigerian Airways, among others.

Any worthwhile exercise in examining the ethical orientation of workers in Nigeria, especially how workers might align with the grand objective of management, must reach back to the colonial condition and the prevailing social contingencies of the larger society of which workers are a part.

APPENDIX

Table I
Workers' Welfare Is Priority in this Organisation by Variable:
Place of Employment

Emplace	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Private Organisation	(17) 21.3	(51) 63.7	(10) 12.5	(2) 2.5	—	(80) 50.0
Public Organisation	(7) 8.8	(26) 32.5	(9) 11.3	(23) 28.8	(15) 18.7	(80) 50.0
Total	(24) 15.0	(77) 48.1	(19) 11.9	(25) 15.6	(15) 9.4	(160) 100

Table II
Workers Welfare is Priority in this Organisation by Variable:
Name of Employing Organisation

Nameploy	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Neil	(2) 8.3	(20) 26.0	(3) 15.8			(25) 15.6
Faro	(7) 29.2	(14) 18.2	(2) 10.5	(2) 8.0		(25) 15.6
Mech Workshop	(8) 33.3	(17) 22.1	(5) 26.3			(30) 18.8
University	(2) 8.3	(6) 7.8	(1) 5.3	(10) 40.0	(6) 40.0	(25) 15.6
Ministry	(4) 16.7	(6) 7.8	(3) 15.8	(9) 36.0	(3) 20.0	(25) 15.6
Steel	(1) 4.2	(14) 18.2	(5) 26.3	(4) 16.0	(6) 40.0	(30) 18.8
Total	(24) 15.0	(77) 48.1	(19) 11.9	(25) 15.6	(15) 9.4	(160) 100

Table III
T-Test

Group 1 Private Organisations Group 2 Public Organisations				Pooled Variance Estimate			Separate Variance Estimate		
Variable	Number of Cases	Mean	Standard Deviation	Standard Error	F Value	2-Tail Probability	T Value	Degrees of Freedom	1-Tail Probability
Consnell: Workers Welfare Is Priority in this Organisation									
Group 1	80	1.9625	0.665	0.074	3.87	0.000	-7.32	158	0.000
Group 2	80	3.1625	1.307	0.146				117.30	0.000

Table IV
One-Way Orthogonal Contrast

Workers Welfare Is Priority in this Organisation by Variable: Name of Employing Organisation Contrast Coefficient Matrix									
	Group 1		Group 2		Group 3		Group 4		Group 5
Contrast 1	-1.0	-1.0	-1.0	-1.0	-1.0	1.0	1.0	1.0	
Pooled Variance Estimate					Separate Variance Estimate				
	Value	Standard Error	T Value	Deg. of Freedom	T Probability	Standard Error	T Value	Deg. of Freedom	T Probability
Contrast 1	3.6200	0.4940	7.328	154.0	0.000	0.4960	7.299	108.1	0.000

Table V
One-Way Analysis of Variance

Workers Welfare Is Given Priority in this Organisation by Variable: Name of Employing Organisation					
Source	Degrees of Freedom	Sum of Squares	Mean	F Ratio	F Prob-ability
Between Groups	5	61.5550	12.3110	11.4334	.0000
Within Groups	154	165.8200	1.0768		
Total	159	227.3750			

WORK ETHIC, LOCUS OF CONTROL, AND TASK PERFORMANCE

JOSEPH NTAYI

1. BACKGROUND

The work ethic is a cultural norm that places a positive moral value on doing a good job and is based on a belief that work has intrinsic value for its own sake.¹ Like other cultural norms, a person's belief in the work ethic is principally influenced by the people with whom he or she regularly interacts, either at home or in the workplace.² The work ethic calls for workers to work diligently and intelligently, to be personally accountable and responsible for the work they perform.

The concept of work as a determinant of personal value and identity, and as an indicator of good character and good morals,³ is slowly but surely losing ground in Uganda. The work ethic in Uganda is suffering enormously, as more and more employees want to do less and less for high pay. University graduates, who find jobs after years of street-walking, spend more time contemplating greener pastures than fulfilling their duties in the first week of their employment.⁴ Employers must deal with employees who do not want to perform a reasonable day's work for fair wages and salaries by instituting supervisory and control mechanisms, such as signing the attendance book on arrival and departure (clocking in and out) and strict monitoring of offices to ensure that employees are in their 'seats' working.

In many Ugandan companies, employees take sick leave when they are not sick, feign injuries to get 'down time', and 'sit around' on company time. The net effect has been unjustifiable, soaring overtime expenditures. The approval of such expenditure by senior managers is a sign of a collaborated effort to engage in unethical work practices. Employees working in retail establishments, such as supermarkets, petrol

1 D. J. CHERRINGTON, *The Work Ethic: Working Values and Values that Work*, New York: AMACOM, 1980, p. 19; J. F. QUINN, 'The Work Ethic and Retirement', in J. BARBASH, R. J. LAMPMAN, S. A. LEVITAN, and G. TYLER, eds., *The Work Ethic: A Critical Analysis*, Madison, Wisconsin: Industrial Relations Research Association, 1983, p. 89; D. YANKELOVICH and J. IMMERWAHR, 'Putting the Work Ethic to Work', *Society* 21 (1984), p. 64.

2 L. BRAUDE, *Work and Workers*, New York: Praeger, 1975.

3 S. BEDER, *Selling the Work Ethic: From Puritan Pulpit to Corporate PR*, London: Zed Books; Melbourne: Scribe Publications, 2000.

4 N. TWINAMATSIKO, *The New Vision*, 2 May 2003, p. 11.

stations, etc., pilfer from employers. They continually gripe about their pay and work conditions to people within and outside their work environments, consuming much psychological energy.

Cases of being involved in 'dual relationships' are common. It was reported in April 2002 that Uganda's Central Tender Board would be abolished and replaced by the Public Procurement and Disposal of Public Assets Authority. This new body was mandated to investigate corruption in the procurement process and to ensure that disciplinary action is taken against culprits. In another development, the Auditor General queried classified expenditures of 37 billion Ugandan shillings (c. US\$ 19 million), citing fraud in various government ministries. Various losses amounting to over US\$ 110,855 were also reported during the 2001/2002 fiscal year.⁵ In addition, three UCB workers attached to Kabwohe Sub-branch in Bushenyi were suspended over a loss of 56 million shillings.⁶ Furthermore, Parliament was presented with the cases of the Managing Director and Corporate Secretary of the National Social Security Fund (NSSF), who were suspended following lack of honesty, integrity and transparency in the management of NSSF finances.⁷ Training institutions continue to grapple with issue of employees giving students an inappropriately high grade to 'help' the student.

Engaging in 'insurance fraud' to help the client pay for services is commonly reported in the Uganda Electricity Distribution Company (UEDC), Uganda Telecommunications Limited (UTL), and Uganda Revenue Authority (URA) (as revealed by the Sebutinde Commission). Attempts have been made in the UEDC to curb the unethical conduct and behaviour of both its staff and customers through 'Operation Sigma', with little success.⁸ Furthermore, UTL customers continue to make monthly payments for service, even when telephones are not functioning. UTL service staff provide lip service or make empty promises.⁹

Accepting expensive gifts from clients is common in many manufacturing and financial institutions in Uganda, blurring personal and professional relationships. Commercial Banks, such as the Co-operative Bank, Greenland Bank, International Credit Bank, among others, were closed due to poor performance, despite audit reports from credible and reputable organisations that had declared them sound and fair. Although

5 *The New Vision*, 22 April 2002, p. 3.

6 *The New Vision*, 30 April 2002.

7 *The New Vision*, 4 May 2002, p. 5.

8 *The New Vision*, 5 May 2002.

9 *The New Vision*, 7 May 2002, p. 11.

six in ten employees see the above happening, only 37% feel comfortable reporting any cases of misconduct they might discover.¹⁰

2. STATEMENT OF THE PROBLEM

The declining work ethic in Uganda may be responsible for the decrease of employee effort, performing personal tasks at work, absenteeism, employee engagement in insurance fraud, misuse of company property, providing sensitive information to the public, and insensitivity to customer needs, thereby leading to low task performance.

3. PURPOSE

The purpose of this study is to establish the relationship between work ethic, locus of control, work withdrawal behaviours, organisational retaliation behaviours, job withdrawal behaviours, and task performance.

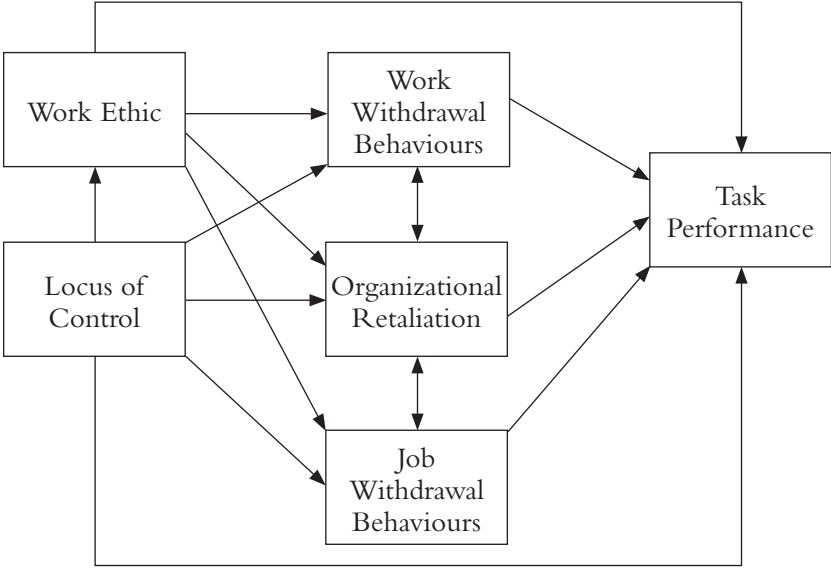
4. RESEARCH OBJECTIVES

- (a) Establish the relationship between work ethic, work withdrawal behaviour, and task performance.
- (b) Examine the relationship between locus of control, organisational retaliation behaviours, and task performance.
- (c) Assess the relationship between work ethic, organisational retaliation behaviours, and task performance.
- (d) Establish the relationship between locus of control, work withdrawal behaviour, and task performance.
- (e) Establish the relationship between locus of control and work ethic.

10 IGG, 'Report by the Inspector General of Government', December 2002.

5. LITERATURE CITATION, CONCEPTUAL MODEL, AND HYPOTHESIS

Figure 1: Work Ethic, Locus of Control, and Work Performance



5.1. WORK ETHIC, WORK WITHDRAWAL BEHAVIOURS, AND TASK PERFORMANCE

Work ethic is a cultural norm that calls upon individuals to be active, austere, and hardworking.¹¹ It is based upon a belief that work has intrinsic value.¹² The Work Ethic Construct is derived from Weber’s Protestant Work Ethic theory, which supports hard work.¹³ This is consistent with the Protestant work ethic, which advocates diligence, punctuality, deferment of gratification, and primacy of the work domain.¹⁴ Hard work is

11 A. TILGHER, *Homo Faber: Work through the Ages*, trans. D. C. FISHER, New York: Harcourt Brace, 1930.

12 CHERRINGTON, *The Work Ethic*; YANKELOVICH and IMMERWAHR, ‘Putting the Work Ethic to Work’; QUINN, ‘The Work Ethic and Retirement’; P. BERNSTEIN, ‘The Work Ethic: Economics, not Religion’, *Business Horizons* 31 (1988), pp. 8-11; P. D. ANTHONY, *The Ideology of Work*, London: Tavistock, 1977.

13 M. WEBER, ‘Die protestantische Ethik und der Geist des Kapitalismus’, *Archiv für Sozialwissenschaft und Sozialpolitik* 20 (1904), pp. 1-54 and 21 (1905), pp. 1-110; trans. T. PARSONS, *The Protestant Ethic and the Spirit of Capitalism*, New York: Charles Scribner’s Sons, 1905.

14 M. ROSE, *Reworking the Work Ethic: Economic Values and Socio-Cultural Politics*, London: Schocken, 1985; R. C. DEANS, ‘Productivity and the New Work Ethic’, in W. B. DICKENSON, Jr., ed., *Editorial Research Reports on the American Work Ethic*, Washington: Congressional Quarterly, 1972, pp. 1-20.

undoubtedly seen as virtuous.¹⁵ The greatest tribute paid to the deceased is 'worked hard all his/her life – irreplaceable'.¹⁶ Most employees anticipate that hard work and talent are the basis for success, rather than chance or luck.¹⁷ Yankelovich found that younger workers were committed to the work ethic. Within this context, the work ethic would be a significant factor in increasing performance.¹⁸ This view is contradicted by Deans,¹⁹ however, who found young people entering the workforce less accepting of hard work as a virtue and duty. We, therefore, propose that:

H₁: Work ethic is a significant positive predictor of task performance.

H₂: Work ethic is a significant negative predictor of work withdrawal behaviours, organisational retaliation behaviours, and job withdrawal behaviours.

Employees with a high level of work ethic are always looking for ways to contribute to the job.²⁰ They are concerned with getting every detail right and carefully follow rules and procedures. They do not spend time at work doing things that are unrelated to the job.²¹

Some employees, however, enact behaviours to avoid aspects of their job or to minimise time spent on certain work tasks, while still maintaining a level of performance that prevents dismissal.²² These behaviours are referred to as 'work withdrawal behaviours'.²³ Past studies reveal that absenteeism, lateness, tardiness, reduction of personal effort, and doing personal tasks at work qualify as work withdrawal behaviours.²⁴

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- 15 D. T. RODGERS, *The Work Ethic in Industrial America, 1850-1920*, Chicago: University of Chicago Press, 1978; M. U. PORAT, *The Information Economy: Definition and Measurement*, Washington: U. S. Department of Commerce, 1977.
 - 16 B. DEAN, 'The Puritan Work Ethic', *In Business*, December 1996.
 - 17 M. MACCOBY, *Why Work? Motivating and Leading the New Generation*, New York: Simon and Schuster, 1988; J. W. SHEEHY, 'New Work Ethic is Frightening', *Personnel Journal* 69 (1990), pp. 28-36.
 - 18 D. YANKELOVICH, *New Rules: Searching for Self-Fulfillment in a World Turned Upside Down*, New York: Random House, 1981.
 - 19 DEANS, 'Productivity and the New Work Ethic', pp. 8-9.
 - 20 YANKELOVICH, *New Rules*.
 - 21 S. T. HUNT, 'Generic Work Behaviour: An Investigation into the Dimensions of Entry-Level, Hourly Job Performance', *Personnel Psychology* 49 (1996), pp. 51-83.
 - 22 K. A. HANISCH and C. L. HULIN, 'General Attitudes and Organizational Withdrawal: An Evaluation of a Causal Model', *Journal of Vocational Behaviour* 39 (1991), pp. 110-28.
 - 23 S. A. STUMPF and P. K. DAWLEY, 'Predicting Voluntary and Involuntary Turnover Using Absenteeism and Performance Indices', *Academy of Management Journal* 24 (1981), pp. 148-63.
 - 24 R. T. KELLER, 'The Role of Performance and Absenteeism in the Prediction of Turnover', *Academy of Management Journal* 27 (1984), pp. 176-83; P. BYCIO, 'Job Performance and Absenteeism: A Review and Meta-Analysis', *Human Relations* 45 (1992), pp. 193-220.

Studies on work withdrawal behaviours and performance have yielded inconsistent results. For example, whereas Hogan and Hogan found a negative relationship between job performance and absenteeism,²⁵ Staw and Oldham viewed absenteeism as a means by which employees can relieve work-related stress, thereby increasing performance.²⁶ Bycio, however, using data from meta-analysis, found a significant tendency for frequently absent employees to be poor performers.²⁷ We therefore propose:

H₃: There is a significant negative relationship between work withdrawal behaviours and task performance.

5.2. LOCUS OF CONTROL, WORK WITHDRAWAL BEHAVIOURS, ORGANISATIONAL RETALIATION BEHAVIOURS, AND TASK PERFORMANCE

Locus of control has been described as a generalised disposition to assign responsibility for outcomes, both positive and negative, to either environmental causes (external locus of control) or internal causes (internal locus of control).²⁸

Storms and Spector contend that individuals with a high external locus of control are more likely to exhibit work withdrawal behaviours, such as coming late to work, absenteeism, and slowdowns.²⁹ As noted by Neuman, attributions for the causes of negative outcomes are driving forces for aggressive behaviours that lead to organisational retaliation behaviours.³⁰ Many researchers have argued that employees exhibit retaliation behaviours in order to 'get back' at the organisation for decisions or managerial actions that are deemed unfair or unjust by the affected employees.³¹ Such behaviours include theft, sabotage, interpersonal aggression, and work slow-downs, wasting time or materials,

25 J. HOGAN and R. HOGAN, 'How to Measure Employee Reliability', *Journal of Applied Psychology* 74 (1989), pp. 273-79.

26 B. M. STAW and G. R. OLDHAM, 'Reconsidering our Dependent Variables: A Critique and Empirical Study', *Academy of Management Journal* 21 (1978), pp. 539-59.

27 BYCIO, 'Job Performance and Absenteeism'.

28 M. J. MARTINKO, J. M. GUNDLACH and S. DOUGLAS, 'Toward an Integrative Theory of Counterproductive Behaviour: A Causal Reasoning Perspective', *International Journal of Selection and Assessment* 10 (2002), p. 38.

29 P. L. STORMS and P. E. SPECTOR, 'Relationships of Organizational Frustration with Reported Behavioural Reactions: The Mediating Effects of Locus of Control', *Journal of Occupational Psychology* 60 (1987), pp. 635-37.

30 J. H. NEUMAN, 'Workplace Violence and Workplace Aggression: Evidence concerning Specific Forms, Potential Causes, and Preferred Targets', *Journal of Management* 25 (1998), pp. 607-27.

31 R. FOLGER, 'Reactions to Mistreatment at Work', in J. K. MURNIGHAN, ed., *Social Psychology in Organizations*, Englewood Cliffs, New Jersey: Prentice-Hall, 1993, pp. 161-83.

and spreading rumours.³² Researchers such as Martinko and Zellars³³ and Weiner³⁴ contend that external attributions stimulate negative affective reactions that are directed outward, such as revenge, particularly when the perpetrators' actions are perceived as intentional.

Geddes and Baron reported that 68.9% of managers indicated they had experienced some form of verbal aggression (insults, threat of retaliation) as a result of negative performance appraisals.³⁵ McGurn further complemented that up to 75% of employees steal from their employer at least once.³⁶ Such behaviours could harm the performance of an organisation.³⁷ Researchers such as Giacalone and Greenburg,³⁸ and Neuman and Barren³⁹ agree that such behaviours are harmful to the organisation and the people associated with the organisation, notably, employees and customers. We, therefore, hypothesise that:

H₄: Internal locus of control is negatively correlated to work withdrawal behaviours, organisational retaliation behaviours, and job withdrawal behaviours.

H₅: External locus of control is negatively correlated to task performance.

H₆: Organisational retaliation behaviours and task performance are negatively related.

5.3. WORK WITHDRAWAL BEHAVIOURS, ORGANISATIONAL RETALIATION BEHAVIOURS, AND TASK PERFORMANCE

Work withdrawal behaviours, organisation retaliation behaviours, and job withdrawal behaviours are thought to inhibit performance.⁴⁰ This

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- 32 L. M. PENNEY and P. E. SPECTOR, 'Narcissism and Counterproductive Behavior: Do Bigger Egos Mean Bigger Problems?' *International Journal of Selection and Assessment* 10 (2002), pp. 126-134.
- 33 M. J. MARTINKO and K. ZELLARS, 'Toward a Theory of Workplace Violence: A Cognitive Appraisal Perspective', in R. W. GRIFFIN, A. O'LEARY-KELLY and J. M. COLLINS, eds., *Dysfunctional Behaviour in Organizations: Violent and Deviant Behaviour*, Stamford, Connecticut: JAI Press, 1998.
- 34 B. WEINER, *An Attribution Theory of Motivation and Emotion*, New York: Springer-Verlag, 1995.
- 35 D. GEDDES and R. A. BARON, 'Workplace Aggression as a Consequence of Negative Performance Feedback', *Management Communications Quarterly* 10 (1997), pp. 433-54.
- 36 T. MCGURN, 'Spotting the Thieves Who Work among Us', *Wall Street Journal*, 7 March 1988, p. 16a.
- 37 OECD Report, 1998.
- 38 R. GIACALONE and J. GREENBERG, eds., *Antisocial Behaviour in Organizations*, Thousand Oaks, California: Sage, 1997.
- 39 J. H. NEUMAN and R. A. BARON, 'Aggression in the Workplace', in GIACALONE and GREENBERG, *Antisocial Behaviour in Organizations*, pp. 37-67.
- 40 HANISCH and HULIN, 'General Attitudes and Organizational Withdrawal'.

is consistent with earlier conceptualisations of Campbell, in which he asserted that unethical behaviours, such as not being on the job as scheduled (absenteeism, tardiness, long breaks), seriously harm performance.⁴¹ Job withdrawal behaviours refer to employee efforts to remove themselves from a specific organisation and work role, withdrawal from the job.⁴² Meta-analytic studies conducted by Bycio, Hackett, and Alvares⁴³ reveal that employees who were terminated had a tendency to perform poorly. We therefore hypothesise:

H₇: There is a significant negative relationship between task performance and job withdrawal.

6. RESEARCH METHODOLOGY

The study took a cross-sectional survey design. Correlations were used to establish relationships between the independent and dependent variables. Data was collected using a self-report strategy consistent with the work of Bennett and Robinson.⁴⁴ Gruys used a similar approach, by asking respondents to consider the range of circumstances under which one could work and respond to behaviours using a scale anchored from 'No matter what the circumstances, I would not engage in the behaviour' to 'In a wide variety of circumstances I would engage in the behaviour'.⁴⁵

6.1. PROCEDURE

The research was carried out in retail institutions in Kampala. Retail institutions in Uganda provide goods and services for ultimate consumption and constitute over 80% of businesses in Uganda.⁴⁶ The data used in the survey were collected in the first phase of the study. Of the 500 retail employees surveyed, 420 responded (an 84% response rate).

The employee sample was confined to retail employees who work on a full-time basis. Of the respondent sample, 58% were male and 42% female. The largest proportion by age (89%) is 20–35 years old. 11% were

41 J. P. CAMPBELL, 'Modeling the Performance Prediction Problem in Industrial and Organizational Psychology', in M. DUNNETTE and L. HOUGH, eds., *Handbook of Industrial and Organizational Psychology*, 2nd Ed., Vol. I, Palo Alto, California: Consulting Psychologists Press, 1990, pp. 687–732.

42 HANISCH and HULIN, 'General Attitudes and Organizational Withdrawal', p. 111.

43 P. BYCIO, R. HACKETT and K. ALVARES, 'Job Performance and Turnover: A Review and Meta-Analysis', *Applied Psychology: An International Review* 4 (1990), pp. 225–35.

44 R. J. BENNETT and S. L. ROBINSON, 'The Development of a Measure of Workplace Deviance', *Journal of Applied Psychology* 85 (2000), pp. 349–60.

45 M. GRUYS, *The Dimensionality of Deviant Employee Performance in the Workplace*, unpublished doctoral dissertation, University of Minnesota, 1999.

46 Uganda Consumer Association/Protection Annual Report, 2002.

above 36 years. The largest percentage of the retail employees was at the certificate level of education (44%), followed by the diploma level (34%). Those with degrees were 21%, while 29% were married and 67% single. A larger proportion of the respondents, 51%, had more than one dependant, while 49% had no dependants. 76% had worked with the organisation for more than one year, while 24% had worked for less than one year.

6.2. SCALES EMPLOYED

6.2.1. Measurements

Work ethic construct was measured by adopting the works of Hill,⁴⁷ Cherrington,⁴⁸ and Deans⁴⁹, because ethics is pluralistic, complex, and a situational construct. Work withdrawal, organisational retaliation, and job withdrawal behaviours were assessed using a behavioural checklist based on a master list compiled from a number of existing measures.⁵⁰ Participants were asked to indicate how often they had done each of the behaviours on their present job. Five response choices were used, ranging from 1 = 'never' to 5 = 'every day'. High scores indicate high incidence of the behaviour. Job performance was assessed using a scale developed by Marcus.⁵¹

6.2.2. Construct Reliability

The scales used in the study were tested for reliability using Cronbach's alpha tests. Work ethic yielded an alpha of 0.6532; internal locus of control, 0.6783; external locus of control, 0.6520; work withdrawal behaviours, 0.8240; organisational retaliation behaviours, 0.8465; job withdrawal behaviours, 0.7321; and task performance, 0.88780.

47 R. HILL, 'A New Look at Selected Employability Skills: A Factor Analysis of the Occupational Work Ethic', *Journal of Vocational Educational Research* 20 (1995).

48 CHERRINGTON, *The Work Ethic*.

49 DEANS, 'Productivity and the New Work Ethic'.

50 R. C. HOLLINGER, 'Acts against the Workplace: Social Bonding and Employee Deviance', *Deviant Behaviour* 7 (1986), pp. 53-75; C. KNORZ and D. ZAPF, 'Mobbing – eine extreme Form sozialer Stressoren am Arbeitsplatz' ('Mobbing – an Extreme Form of Social Stressors in the Workplace'), *Zeitschrift für Arbeits- und Organisationspsychologie* 40 (1996), pp. 12-21; NEUMAN and BARON, 'Aggression in the Workplace'; S. L. ROBINSON and R. J. BENNETT, 'A Typology of Deviant Workplace Behaviours: A Multi-Dimensional Scaling Study', *Academy of Management Journal* 38 (1995), pp. 555-72; D. P. SKARLICKI and R. FOLGER, 'Retaliation in the Workplace: The Roles of Distributive, Procedural and Interactional Justice', *Journal of Applied Psychology* 82 (1997), pp. 434-43; P. E. SPECTOR, 'Relationships of Organizational Frustration with Reported Behavioral Reactions of Employees', *Journal of Applied Psychology* 60 (1975), pp. 635-37.

51 B. MARCUS, *Counterproductive Behavior in Organizations: An Individual Differences Perspective*, Göttingen: Verlag für Angewandte Psychologie, 2000.

7. RESULTS AND DISCUSSION

7.1. FACTOR ANALYSIS

The items of the main study were factor analysed using principal components with varimax rotation. The results for work ethic construct yielded one factor corresponding to work ethic explaining 59.6% of the variance, as depicted in Table 1.

Four items emerged from items measuring locus of control: powerful others (19.7%), internals (13.2%), and chance (12.5%). The fourth component that accounted for 11.5% of the variance was not clear; it did not clearly load on any of the factors and, therefore, was ignored. These four factors accounted for 56.8% of the variance, as shown in Table 2. The constructs of powerful others and chance were combined to form the external locus of control construct.

Items measuring organisational retaliation behaviours yielded seven factors: theft (13.3%), misuse of company property (11.4%), assaulting company customers (7.5%), damaging company property and releasing confidential information – aggression (6.4%), sabotage (6.2%), spreading rumours about the organisation (5.5%), and conspiracy (5.1%). These seven factors accounted for 55.4% of the variance, as shown in Table 3.

Items measuring work withdrawal behaviours yielded four factors, accounting for 52.3% of the variance. All of the items loaded well: absenteeism (15.7%), reduction of effort (14.2%), doing personal tasks at work (11.4%), and tardiness (11.0%), details of which are shown in Table 4.

7.2. RELATIONSHIPS BETWEEN VARIABLES

The hypotheses regarding the relationship between work ethic, the three behavioural families, and the task performance constructs were assessed by zero-order correlations. The respective coefficients are shown in Table 5. Of the hypothesised relationships, four were found to be significant, as detailed in Table 5. Critical to this research are the findings that:

Work ethic correlated significantly and positively with task performance ($r = 0.1375^{**}$, $P < 0.000$), supporting H_1 . External locus of control correlated significantly but positively with work withdrawal behaviours ($r = 0.1471^*$, $P < 0.027$), organisational retaliation behaviours ($r = 0.1121^*$, $P < 0.031$), job withdrawal behaviours ($r = 0.097^*$, $P < 0.048$), and negatively with task performance ($r = -0.167^{**}$, $P < 0.000$), supporting H_3 .

Work withdrawal behaviours had a significant positive correlation with organisational retaliation behaviours ($r = 0.620^{**}$, $P < 0.000$), but negatively with task performance ($r = -0.232^{**}$, $P < 0.000$).

Organisation retaliation behaviours had a significant positive correlation with job withdrawal behaviours ($r = 0.173^{**}$, $P < 0.000$) and a significant negative correlation with task performance ($r = -0.183^{*}$, $P < 0.031$).

Internal locus of control and job withdrawal behaviours did not significantly correlate with any of the variables in the conceptual model.

Table 5: Zero-Order Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(8)
Work Ethic (1)	1.00 .						
External Locus of Control (2)	-.020 (.679)	1.00 .					
Internal Locus of Control (3)	.044 (.364)	.000 (1.000)	1.00 .				
Work Withdrawal Behaviours (4)	-.026 (.588)	.1471* (.027)	-.034 (.487)	1.00 .			
Organisational Retaliation Behaviours (5)	-.062 (.208)	.1121* (.031)	-.003 (.948)	.620** (.000)	1.00 .		
Job Withdrawal (6)	-.011 (.822)	.097* (.048)	-.063 (-.198)	.191** (.000)	.173** (.000)	1.00 .	
Task Performance (8)	.1375** (.000)	-.167** (.000)	.043 (.385)	-.232** (.000)	-.183* (.031)	-.044 (.371)	1.00 .

**Significant at $P=0.01$, *Significant at $P=0.05$

7.3. REGRESSION ANALYSIS

Regression analysis was used to assess the effects of various dimensions of work ethic and locus of control on task performance, and in turn the effect of the three behavioural families of work withdrawal behaviours, organisational retaliation behaviours, job withdrawal behaviours and task performance as a dependent variable. Work ethic was found to have a

significant positive effect on task performance. The sign of the coefficient of the variable was in the hypothesised direction as indicated in Table 6.

Table 6: Dependent Variable: Task Performance (perf)

	Unstan- dardised Coeffi- cients		Stan- dardised Coeffi- cients	t	Collinearity Statistics	
	B	Std. Error	Beta		Tolerance	VIF
(Constant)	2.744E-17	.048		.000		
Work Ethic	.157	.048	.157	3.252	1.000	1.000
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig. F Change	
0.3493	0.125	0.122	.9887692	.025	.001	

The regression model explained about 12% of the total variation in task performance and the overall regression relationship was significant at 1% level (see Table 6). This result suggests that work ethic is an important predictor of task performance.

The next question of interest was the effect of the three behaviour families on task performance. To explore this, another regression analysis was performed using task performance as the dependent variable. The adjusted $R^2 = 0.292$, and $F = 4.922$, the standardised beta coefficients are shown in Table 7 and, while only 28.4% of the variance in task performance is explained, the findings indicate that organisational retaliation behaviours and work withdrawal behaviours are important factors explaining task performance.

Table 7: Dependent Variable: Task Performance

Variables in the Equation	Unstan- dardised Coeffi- cients	Std. Error	Stan- dardised Coeffi- cients	t	Sig.	Col- linearity Statistics	VIF
	B		Beta			Tolerance	
(Constant)	4.914E-17	.041		.000	1.000		
Misuse of Company Property (ORB)	-.310	.043	-.310	-7.253	.000	.935	1.070
Sabotage (Falsify)	-.268	.042	-.268	-6.359	.000	.962	1.040

Tardiness (Work Withdraw- al Behav- iour)	-.193	.043	-.193	-4.498	.000	.932	1.072
Doing Personal Task at Work	-.129	.043	-.129	-2.975	.003	.903	1.107
Theft (Org Ret Behaviour)	9.489E-02	.043	-.095	-2.218	.027	.934	1.070
R .541	R Square .292	Adjusted R Square .284	Std. Er- ror of the Estimate .8462571	R Square Change .008	F Change 4.922	df1 (1)	df2 414

7.4. DISCUSSION

This study has produced a series of interesting results, several of which confirm previous research. Consistent with Donovan⁵² and Munson,⁵³ this study tends to suggest that work withdrawal and organisational retaliation behaviours seem to be measuring the same thing.

It is expected that an employee who scores high on work ethic would equally achieve positive task performance. This study, as expected, finds a positive relationship between work ethic and task performance. This is consistent with Dean, who found work ethic to be a significant factor increasing performance.⁵⁴

Consistent with previous research, work withdrawal behaviours and organisational retaliation behaviours show a negative relationship with task performance.⁵⁵ This finding, however, contradicts Staw and Oldham, who contend that work withdrawal behaviours like absenteeism help to relieve work related stress, thus making employees more productive.⁵⁶

52 M. A. DONOVAN, *Cognitive, Affective, and Satisfaction Variables as Predictors of Organizational Behaviors: A Structural Equation Modeling Examination of Alternative Models*, unpublished doctoral dissertation, University of Illinois, 1999.

53 L. J. MUNSON, *Assessing the Influence of Personality, Affectivity and Mood on Job Satisfaction and Job Behaviours: A Test of Alternative Models*, unpublished doctoral dissertation, University of Illinois, 2000.

54 DEAN, 2003.

55 HOGAN and HOGAN, 'How to Measure Employee Reliability'; BYCIO, 'Job Performance and Absenteeism'; R. D. HACKETT, P. BYCIO and R. M. GUION, 'Absenteeism among Hospital Nurses: An Ideographic-Longitudinal Analysis', *Academy of Management Journal* 32 (1989), pp. 424-53.

56 STAW and OLDHAM, 'Reconsidering our Dependent Variables'.

Bycio, however, using data from meta-analysis, found that this positive relationship was very slim.⁵⁷

The absence of a significant relationship between internal locus of control and job withdrawal behaviours differs from Steers and Mowday,⁵⁸ and Williams and Livingstone,⁵⁹ who contend that poor performers hold negative organisational beliefs in order to maintain adequate justification for their substandard performance on the job.

Consistent with Storms and Spector,⁶⁰ and Perlow and Latham,⁶¹ external locus of control was found to be positively correlated to work withdrawal behaviours, organisational retaliation behaviours, and job withdrawal behaviours. Generally, research documents that locus of control is related to incidents of counterproductive behaviour in organisations. This also confirms the negative relationship between external locus of control and task performance.

8. RECOMMENDATIONS

This survey supports the need to improve the work ethic and reduce the external locus of control, work withdrawal behaviours, and organisational retaliation behaviours, which negatively affect task performance. This calls for a creation of a national work ethic that emphasises commitment to work.

57 BYCIO, 'Job Performance and Absenteeism'.

58 R. M. STEERS and R. T. MOWDAY, 'Employee Turnover and the Post-Decision Accommodation Process', in L. L. CUMMINGS and B. STAW, eds., *Research in Organizational Behaviour*, Greenwich, Connecticut: JAI Press, 1981, pp. 235-81.

59 C. WILLIAMS and L. LIVINGSTONE, 'Another Look at the Relationship between Performance and Voluntary Turnover', *Academy of Management Journal* 37 (1994), pp. 269-98.

60 STORMS and SPECTOR, 'Relationships of Organizational Frustration with Reported Behavioural Reactions'.

61 R. PERLOW and L. L. LATHAM, 'Relationship of Client Abuse with Locus of Control and Gender: A Longitudinal Study in Mental Retardation Facilities', *Journal of Applied Psychology* 78 (1993), pp. 831-34.

APPENDIX

Table 1: Work Ethic

ROTATED COMPONENT MATRIX	COMPONENT
	Work Ethic
Hard work is something I like to avoid.	0.696
I can easily sit for a long time doing nothing.	0.744
I like to work hard.	0.714
I easily get bored if I do not have something to do.	0.827
There is satisfaction in a job well done.	0.647
Part of the satisfaction in doing something comes from seeing how good the finished product looks.	0.577
It is no playing games when you are playing with someone as good as yourself.	0.535
I find satisfaction in working as well as I can.	0.591

Rotation Method:Varimax with Kaiser Normalisation

Table 2: Locus of Control

ROTATED COMPONENT MATRIX	COMPONENTS			
	Powerful others (1)	Internal (2)	Chance (3)	Blurred (4)
I have often found that what is going to happen will happen.	-2.59E-02	0.17	0.6	0.284
To a great extent, my life is controlled by accidental happenings.	0.2	-0.484	0.447	0.378
Often there is no chance of protecting my personal interests from bad luck happenings.	0.118	0.122	-0.127	0.754
It's not always wise for me to plan too far ahead, because many things turn out to be a matter of good or bad fortune, chance.	1.53E-02	-3.35E-02	9.72E-02	0.683
I am usually able to protect my personal interests.	-6.69E-02	0.768	0.141	1.63E-02
My life is determined by my own action.	0.134	0.408	0.538	-2.03E-02
I can pretty much determine what will happen in my life.	7.01E-02	-1.03E+01	0.729	-0.223
When I make plans, I am almost certain to make them work.	0.15	0.685	0.1	0.108
Getting what I want requires pleasing those people above me.	0.66	3.04E-02	0.206	0.128
My life is chiefly controlled by powerful others.	0.793	-6.50E-02	0.106	-2.33E-02
In order to have my plans work, I make sure that they fit in with the desires of people who have power over me.	0.741	0.256	-0.102	0.189
I feel like what happens in my life is mostly determined by powerful people.	0.85	-5.19E-02	-1.54E-02	-3.84E-02

Extraction Method: Principal Component Analysis
Rotation Method:Varimax with Kaiser Normalisation

Table 3: Organisational Retaliation Behaviours

ROTATED COMPONENT MATRIX	COMPONENT						
	Theft (1)	Misuse of Company Property (2)	Sabotage/ Assault of Comp. Customers (3)	Aggressive (Damage Property) (4)	Sabotage (5)	Rumour (6)	Collusion (7)
I argued with people from outside the organisation, e.g. customers or visitors.	0.108	2.66E-02	0.527	0.272	-0.174	0.325	-0.379
I was intoxicated during working hours.	0.47	2.70E-02	-0.177	0.13	-5.28E-03	0.441	8.46E-02
I spread rumours about the firm.	1.71E-02	5.37E-03	2.98E-02	-8.18E-02	-2.35E-02	0.709	7.73E-02
I helped someone to steal company property.	9.80E-02	9.44E-02	0.103	0.148	-7.59E-03	6.97E-02	0.799
I used a company car on my private business without permission.	0.379	0.3	0.407	-0.122	5.40E-02	-0.122	0.237
I took work materials home without permission.	0.742	0.236	-4.10E-02	-7.38E-03	0.139	5.21E-02	-2.60E-02
I turned in a falsified bill of expenses.	0.361	0.366	-8.30E-02	0.303	0.131	0.206	0.277
I made private calls or sent private e-mails at the company's expenses.	0.242	0.643	0.219	4.57E-02	-9.04E-02	0.233	0.122
I used more work materials than absolutely necessary.	0.214	0.675	9.08E-02	0.143	3.77E-02	-1.72E-02	0.137
I took home merchandise without permission.	0.739	5.22E-02	0.217	5.06E-02	5.11E-02	4.87E-02	-2.20E-02
I took money from my workplace that did not belong to me.	0.439	0.357	-0.205	0.153	-2.21E-03	-0.201	-0.264
I took home office supplies for private use.	0.557	0.308	0.287	-2.55E-02	0.143	9.98E-02	8.13E-02

I took part of my work material for private use.	0.623	0.177	0.29	7.48E-02	-6.26E-02	-4.59E-02	0.176
I deliberately damaged property at work.	9.00E-02	8.68E-02	9.78E-03	0.868	-3.90E-02	-6.87E-03	1.63E-02
I did not report theft by others.	-5.42E-03	0.224	7.88E-02	0.203	0.284	0.56	-8.42E-02
I passed confidential information on to someone outside the organisation.	1.92E-02	7.18E-02	0.123	0.626	0.368	8.28E-02	0.148
I sold goods to a friend at a reduced price.	0.231	0.239	0.567	0.143	0.243	-3.12E-02	-5.61E-02
I made private photocopies at the company's expense during working hours without permission.	8.81E-02	0.751	-2.20E-03	-6.98E-02	8.05E-02	7.36E-02	5.19E-02
When a supervisor treated me unfairly, I damaged company supplies in response.	2.49E-02	8.86E-02	0.171	7.80E-02	0.79	1.85E-02	-3.61E-02
I falsified business documents.	0.418	6.68E-02	-8.68E-02	9.42E-03	0.5	0.158	0.121
I intentionally made mistakes.	0.457	0.11	0.206	0.151	0.408	-1.06E-02	-6.34E-03
I accepted payment in exchange for doing someone a favour.	6.66E-02	0.623	0.21	0.14	0.217	9.99E-03	-9.31E-02
I've gotten physically rough with people from outside the organisation, e.g. customers, visitors.	4.64E-02	0.101	0.658	-2.30E-02	0.11	1.97E-02	0.152
I gave the employee discount to friends or relatives.	0.353	0.455	0.315	3.77E-02	2.88E-02	-3.08E-02	-0.241

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalisation

Table 4: Work Withdrawal Behaviours

ROTATED COMPONENT MATRIX	COMPONENTS			
	Absentee- ism (1)	Reduction of Effort (2)	Personal Tasks at Work (3)	Tardiness (4)
I left my work place during hours without permission.	0.623	0.361	7.10E-02	7.604E-02
I stayed away from work without excuse.	0.835	7.44E-02	0.123	2.40E-02
I intentionally worked slowly or carelessly.	4.09E-02	-0.128	0.233	0.783
I came to work late or went home early.	0.337	0.664	0.132	-4.61E-03
I exceeded a break for more than five minutes.	0.336	0.59	0.126	-3.20E-02
There were occasions when I skipped work.	0.445	0.24	0.206	0.4
I worked less in the absence of my supervisor.	0.21	0.226	-7.48E-02	0.72
I arrived at work at least 10 minutes late.	0.271	0.747	4.92E-02	0.16
I took a walk within the firm to shirk working.	0.246	0.144	0.572	-6.53E-04
I shirked unpleasant tasks.	2.59E-02	0.249	0.674	9.31E-02
I stayed away from work, although I was actually very healthy.	0.566	8.19E-02	0.494	8.27E-02
I did not prepare for important jobs sufficiently.	-2.37E-02	0.348	0.191	0.341
For my own business I left my workplace without permission.	0.574	0.131	6.09E-02	0.392
During working hours, I read the newspaper or played computer games.	-0.103	0.536	0.227	0.108
I used working time for private affairs.	7.66E-02	6.02E-02	0.66	0.146

Extraction Method: Principal Component Analysis
Rotation Method:Varimax with Kaiser Normalisation

PERSONAL MORALITY AND BUSINESS MANAGEMENT: EMPIRICAL AND PHILOSOPHICAL PERSPECTIVES

MICHAEL MABURURU NTABO

1. INTRODUCTION

This essay attempts to show the relationship between individual morality and business management. It argues that it is impossible to eliminate completely personal interest (subjectivity) from discussions of morality, because, following Thomas Hobbes, man is naturally selfish.¹ That is, man cares only for his own interest and every man seeks only his own good. Indeed, this seems to be the driving force behind whatever people do, particularly in business. Of course, this does not disregard Jean-Jacques Rousseau's view that 'man is by nature good', but 'men are depraved and perverted by society'.² According to Rousseau, the natural man, unspoiled by custom, law and science, is innocent and good.

There seem to be no such persons in contemporary society. People of today appear to agree with Hobbes's view, when they talk of habits of the heart as dedicated more to individualism than to collectivism (ethical egoism, rather than universalism in morality). Personal morality, however, need not always be completely antithetical to universal morality. Personal interests may, at times, be dictated by Immanuel Kant's categorical imperative, whereby we must act in such a way that we can will the maxim on which we are acting (which may eventually be geared towards self-gain) to become a universal law.³

1 Cf. Thomas HOBBS, *Leviathan, or the Matter, Forme, and Power of a Common-Wealth Ecclesiasticall and Civill*, London: Andrew Crooke, 1651, p. 61: 'If any two men desire the same thing, which nevertheless they cannot both enjoy, they become enemies.' It should be noted, however, that, while Hobbes is often labelled an 'ethical egoist', his theory is too complex to be classified as such: 'The Lawes of Nature . . . have been contracted into one easie sum, intelligible, even to the meanest capacity; and that is, *Do not that to another, which thou wouldest not have done to thy selfe*; which sheweth him, that he has no more to do in learning the Lawes of Nature, but, when weighing the actions of other men with his own, they seem too heavy, to put them into the other part of the ballance, and his own into their place, that his own passions, and selfe-love, may adde nothing to the weight' (*Ibid.*, p. 79).

2 Jean-Jacques ROUSSEAU, *Émile ou de l'éducation*, Book IV, para. 842, Amsterdam: J. Neaulme, 1762; trans. Barbara FOXLEY, *Émile*, London: J. M. Dent & Sons; New York: E. P. Dutton & Co., 1911, p. 198.

3 Immanuel KANT, *Grundlegung zur Metaphysik der Sitten*, Riga: Johann Friedrich Hartknoch, 1785, p. 421; trans. Lewis White BECK, *Foundations of the Metaphysics of Morals*, New York: Macmillan, 1959, p. 39.

Furthermore, as regards business ethics, even though professionalism is called for, there is still an aspect of personal interest at play. Hence, this essay argues that successful business endeavours do not necessarily exclude personal interest. This means that business management and personal interest can be distinguished, but are actually inseparable. Equally, the essay shows that successful businesspersons are those who have learnt and managed to keep and control the market game.

In conclusion, I maintain that professionalism in business management, as in any human endeavour, is paramount. Nevertheless, attempting to eliminate personal interest is a mistake. What we require, instead, is a conception of business management that includes harmony between self-interest and the good of society. The philosophy of traditional African cultures contains the resources for developing such a conception.

2. PERSONAL INTEREST AND BUSINESS

Personal morality involves acting in ways that one hopes will bring the best consequences for oneself. And the best consequences are those that bring one happiness or success. Hence, before acting, one must consider the consequences of one's actions. However, any given act will undoubtedly have many consequences. Obviously, one cannot expect to foresee all the consequences of a given act or deed, but must nevertheless try to anticipate all the significant ones. For instance, in business, one can easily foresee the consequences of unreasonably increasing prices for various commodities without justification. Unreasonable price increases on goods can lead to loss of customers and poor performance in business, one may be prosecuted if discovered, etc. Because we cannot foresee all the specific consequences of what we do, there is a need to have some generalised rules available that can help us out of situations that could be troublesome. Hence, the basic question, as John Burr and Milton Goldinger put it, is: 'How can I get something I want without hurting my chances for other things that are more important to me?'⁴

It is this generalised long-term attitude that underlies an individual's basic code of conduct. And when we speak of morality, I cannot think of any other sensible reason to be concerned about the subject. Its purpose, as Daniel Kolak rightly notes, 'is to keep you aimed in the direction you most want to go, that is to succeed in your endeavours'.⁵

4 John R. BURR and Milton GOLDINGER, *Philosophy and Contemporary Issues*, 8th Ed., Upper Saddle River, New Jersey: Prentice Hall, 1999, p. 204.

5 Daniel KOLAK, *Questioning Matters: An Introduction to Philosophical Inquiry*, London: Mayfield Publishing Company, 1999, p. 510.

Personal morality is an attempt to consider all the relevant consequences of one's actions. 'Relevant' consequences are those that will affect oneself. How our actions affect others is important only insofar as that in turn affects us. A personal morality is basic to our overview of how we will find happiness and success in whatever we embark on. Therefore, a realistic personal morality has to consider many personal factors, e.g. one's emotional factors – one's emotional nature, abilities, strengths and weaknesses – and, most importantly, one's goals, for instance, business goals.

One's code of conduct must be consistent with one's goals, so that one does not do anything (such as increasing the prices of goods unreasonably) that would make those goals unattainable. In this case, we need what we may call 'useful morality'; namely, a morality that will prevent us from doing things that might take years to correct. Let us take any business, for example, transport, construction, rental business, etc. What is vital in all of these types of business is success. But how does success come to each of these businesses? One may say that success can come through hard work and self-commitment. This is possible. But the reality might suggest something quite different, because it is true that we have seen hard-working and committed persons fail in business. Someone else may say that success in business calls for professionalism – right conduct in the business profession. All of these factors are crucial, insofar as success or failure in business is concerned. But, one may still want to ask: what is it that really determines the success or failure of any business? All of the above-mentioned elements (hard-work, commitment, professionalism, and a host of others) are crucial, but personal interest adds weight to the success in business endeavours. For any business to succeed, sustain itself, pay workers, and earn profit – for the owner – some degree of personal interest must be invested in such work. For instance, the owner must dedicate quality time for it and employ workers who have good personal relationships with customers, workers who have at least basic skills in business. In any kind of business, small or large, the owner's aim is to make some profit, even if the objective of business is supposed to be the economic prosperity of everyone. In the process of making some profit, much personal interest is taken into consideration. For instance, how will the business improve one's life economically, socially, and in turn the economic prosperity of others as well, etc.?

3. NATIONAL INTEREST AND ECONOMICS

Even when it comes to international affairs, what actually transpires is no different from what takes place at the individual level. The so-

called ‘developed nations’ pursue their personal interests, whether in trade relations, diplomatic or otherwise; they ensure that their goals are achieved, at times at the expense of poorer nations. What takes place at that international level is a reflection of the nature of man, which explains why I decided to defend personal morality, even though there are various other theories of ethics in business. These other ethical theories, such as utilitarianism, collectivism, etc., recommend good ideas, insofar as they are aimed at benefiting the majority. In real life experience, however, when it comes to the world of business, these theories remain, at most, on a theoretical level. The theory that works in business, whether on an individual, national or international level, is that of personal morality.

To my understanding, personal morality is close to situational ethics. When there is a shortage of supply of some commodity, this may dictate a price increase. In such situations, we may be tempted to conclude that what one does is not as significant as why one does it. In Machiavellian terms, the end justifies the means – the end here is personal gain, interest. For instance, some decisions taken by world leaders in international business operations are neither fully economically rational nor morally justifiable. One finds no reason to say that in international business operations there exists something like universal morality (i.e. a morality meant to apply to everyone in the world, one that is supposed to bring happiness to anyone who uses it). What exists, as Thomas Donaldson observes in *The Ethics of International Business*, is ‘personal interest’.

Let us consider the example of military spending by various nations. Governments attempt to legitimate their military expenditures by evoking the futuristic vision of increased national security. Evidence linking increased military spending to better life quality for the average citizen, as Kenneth Kassman rightly notes, is more problematic.⁶ In the developing countries, where the chances of dying from social neglect (ranging from malnutrition to preventable diseases) are thirty-three times higher than the chances of dying in a war involving an external aggressor, one may ask whether the money spent on the military sector might not increase national security to a greater extent if used in other ways. For example, the twenty-six combat aircraft recently purchased by China from Russia could have provided safe water for 140 million of the 200 million Chinese now in need of it. The twenty MIG fighters that India recently purchased from Russia could have provided educational opportunities for all of the 15 million or so Indian girls out of school.

6 Kenneth KASSMAN, *Re-Evaluating Nation-State Priorities*, London: Oxford University Press, 1995, p. 14.

The list goes on and on. As a consequence, national economies are laden with debts they cannot repay. As Alexius Lipingu correctly observes:

Today there is an arms race among nations, wars that are fostered for the sake of selling arms. We are talking of a world governed by the arms race, war, torture, nuclear forms of eradicating the human family from the face of the earth.⁷

In this kind of situation, one is left to wonder whether there exists something called universal morality that dictates business. Even those leaders from the Third World who buy these weapons are to blame. It is not fair to blame only those who sell weapons. Those who purchase these weapons know very well that firearms are never used for the welfare of humanity, but for its destruction. If they are used against humanity, then this raises a fundamental moral question, namely, are we for life or against it? If we are not for life, then buying or selling these weapons to destroy humanity may further our ends. But if we are for life, we should know that selling or buying these weapons is wrong, i.e. immoral.

The above case does not show fair play. What it shows is that superpowers pursue their self-interests. Poverty and misery are not real problems for the modern person. The resources he has at his disposition due to scientific and technological skill could enable humanity to overcome economic misery in all of its manifestations. But man does not want to use these scientific and technological skills for the well-being of all humanity.

To show the selfishness of man is to raise a fundamental question, namely, what creates this misery (i.e. poverty, war, arms-selling, etc.) and division of humankind into two major blocks? This division as a system has its own guiding principle and internal logic, which guarantees that the man who is rich has power over the lives of the poor, even over their politics and business. And even more important is that our social and economic system, nationally and internationally, supports these divisions and constantly increases them, so that the rich become even richer and more powerful, while the poor become relatively poorer and less able to control their own futures.

This situation explains the entire problem of the dependence syndrome in the 'Third World' in relation to the 'developed world'. The developed nations have neither permanent friends nor enemies, but only permanent interests. In other words, there is no morality in international affairs. Hence, the call for justice in international relations is both

7 Alexius LIPINGU, 'How Difficult It Is to Be Black and Believe in Yourself,' Pontifical Gregorian University, Rome, 1987, pp. 12-18.

misplaced and misdirected, because what takes place in real life shows clearly that there is exploitation of all kinds: economic, political, social, etc. The situation of having neither permanent friends nor permanent enemies generates mistrust among nations and a sense of extreme fear and diffidence, because the poor nations feel that what is granted to them by the right hand is taken from them by the left.

While these so-called 'developed nations' profess Judeo-Christianity in conjunction with their claim to 'Western civilisation', this religious orientation has not come to form the bases of their ethical tenets regarding the acquisition, possession, and sharing of material possessions, nor have these tenets modified their monopoly of business and exploitation of the rest of the world. The same applies to the Muslim community. What clearly comes out of this discussion is that what underlies any form of relation – social, political, economic, or otherwise – is personal interest. This unfair play between nations can become a chronic disease that aggravates the health of the globe every day. The poverty that torments the greater part of humanity today is in reality a tamed animal whose possible defeat is in the hands of the human person, but only if he decides to act. Otherwise, the development of business among nations becomes an empty and deceptive term; it seems to be an instrument of keeping the great masses in misery and the dominant nations the beneficiaries of the goods of the world. Thus, it becomes a relation not of mutual partnership, but of a class of people exploiting the poor masses of the rest of the globe.

Despite this miserable situation (of poverty, exploitation, and injustice between nations) of the 'have nots' of the 'Third World', the almighty 'haves' do not stop drawing the last drop of blood out of them. The great powers persistently continue to exploit the poor nations in all aspects of life, to use Lipingu's idea, 'just as water from the driest regions of the earth continuously flows into the oceans where water is already plentiful'.⁸ Wealth flows today from the poorest nations and the poorest individuals into the pockets of those who are already wealthy.

On the international level, there are two dominant fields where economic domination is perpetuated. In trade relations between the so-called 'developed' and 'developing' countries, the latter are kept in a state of perpetual dependence. Raw materials are purchased from the developing countries at low prices, processed in factories, and then sold back at impossibly high prices, so that developing countries not only fail to obtain what is necessary for their growth, but also face ever-rising

8 *Ibid.*, pp. 18–22.

debts. Hence, the poor nations become even poorer, while the rich ones become still richer. One may safely conclude from this that in business there is no universal morality, only personal, national, or international interest. The existing theory of professionalism in business is, therefore, dubious. Certain attitudes or conduct may be shown in business, but at the end of it all, what counts is the owner's interest.

Another field of relations where morality does not seem to apply is financial aid for assisting various projects in poor nations. Some aid is given and many times managed by the donor country. These people are paid in foreign currency and end up taking a huge amount of this financial aid back to the donor country. All of this is done in the name of transparency and accountability, or in the same name of lack of expertise in the developing nations. Such assistance becomes a burden to the developing nations. With all of this in perspective, one may end up with the rather disturbing conclusion that in business and in international relations or affairs, there is no universal morality at work. Instead, national interests are given first priority, and morality and fairness come later.

If one considers how the so-called 'developed nations' acquired most of their wealth, one has every reason not to believe in universal morality and in other similar ethical theories. Most of this wealth was acquired through very unethical means, for instance, through exploitation. Consider the slave trade, colonialism, exploitation of natural resources, and oppression of different kinds, social political, economical, cultural, and otherwise. There was no fairness here. These nations or colonialists were only out to cater to their own interest. For instance, who are the creators of the American economy? They are, of course, the slaves – the black Americans. But who are they in America today? They have not been accepted as equals by the whites, who are themselves also the descendents of immigrants. Does one need to be told that such a situation does not conform to any standard of justice or fairness in any part of the globe? Common sense tells us that there is no fairness, let alone anything to do with morality.

Even in bilateral relations, particularly trade, the developing nations are always at the receiving end, and yet are the ones who produce the most essential goods, insofar as human survival and well-being are concerned. We are thinking of agricultural produce. After all has been said and done, we still hear of trade imbalance. When asked why there is a trade imbalance, no one is ready to give any genuine, logical answer. But the truth is that the developed states are the ones who dictate the terms of trade for their manufactured goods, as well as the raw materials from the Third World countries. In such situations or relations, the developed

nations are always at the advantage as the beneficiaries of the world's resources. Although people talk of professionalism, very little of it actually takes place in our day-to-day experience. What does exist is struggle for dominance in the market economy. The powerful countries control the prices of all commodities, even those they do not produce themselves.

It is quite in order for some whites to argue that they do not have to feel responsible for whatever problems are found in the Third World, because they (the present white generation) did not commit these evils themselves. These ills (poverty, ignorance, exploitation of all kinds, etc.) were committed, if they were ever committed, by their forefathers, most of whom are no longer living. The question is, therefore, why should they be held responsible for the sins of their fathers? Insofar as this argument goes, they have a point to make. The Third World countries, particularly those in Africa, will never develop if they continue to blame the developed countries for their misfortune, e.g. poverty, mediocre leadership, poor governance, corruption, etc. They should turn these misfortunes into opportunities. They should act on their current problems themselves. Indeed, it is their moral obligation to shape their future destiny by avoiding the problem of over-dependence, a real disease in most African countries.

4. CONCLUSION

This essay has argued that in the world of business, there is more to the question of personal satisfaction or maximising profit than the overall economic prosperity of everyone. I have also argued that it is difficult to justify any talk of morality in international affairs, because empirical observation provides little evidence of fairness when it comes to the issue of justice, insofar as any kind of relation is concerned: trade, diplomacy, armament, etc. Even if it may not be argued that everyone is selfish, this essay shows that human nature is such that, to a great extent, it is self-centred.

This essay may seem pessimistic. Most commercial and economic actions are motivated by personal or national self-interest. This need not be pessimistic, however, if we can expand the concept of self-interest to include the interests of others. The philosophy of traditional African cultures contains the resources to accomplish this conceptual expansion.

In traditional African cultures, there is no conflict between the good of the community and the good of its members. To be ethical is to promote both one's personal interest and the interest of the community to which one belongs. What we need today are theories and practices

of business management and international economics rooted in such an understanding of self-interest.

To expect business managers or nations to act contrary to their own interests is misguided and futile. It reveals a misunderstanding of human nature. We naturally do what we believe will be good for ourselves and make us happy. This is a powerful motivator and should not be opposed. The challenge is not to persuade managers and nations to act contrary to self-interest, but rather to give them an understanding of self-interest that includes the interest of the national and global community. If this can be accomplished, the world of commerce will no longer be a Hobbesian war of everyone against everyone.

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Shareholder Value & the Common Good

What is the objective or purpose of business management? According to the dominant theory of contemporary financial management scholarship, agency theory, business managers are obligated to maximise owner or shareholder value. According to most theories of business ethics, however, some owner-value-maximising actions should not be performed, because they would be unethical. Because business management scholars and business ethics scholars have not resolved this contradiction, students of commerce receive a contradictory education.

The twenty-five essays in this interdisciplinary, international volume address the question of the objective or purpose of business management from a wide range of theoretical perspectives. Since some of the writers contradict one another, it is not possible that all of them are correct. Nevertheless, the fact that many of them argue persuasively that business managers should aspire to more than maximisation of a financial variable challenges everyone with a theoretical or practical interest in commerce to reconsider acceptance of the owner-value paradigm and to develop a richer conception of the profession of business management.

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